Konami Co., Ltd.

Annual Report

1997



We Are the Source of Smiles.

KONAMI

Profile

Konami Co., Ltd., was founded in Osaka in 1969 by Kagemasa Kozuki, who currently serves as the chairman of the board and chief executive officer. Originally named Konami Industries Co., Ltd., the Company began manufacturing amusement machines in 1973. In the following years, Konami successively developed video game machines based on microcomputers, as well as video game software for personal computers, combining hardware and software technologies to create leading-edge amusement scenarios.

The Company's shares were listed on the first sections of the Tokyo Stock Exchange and the Osaka Securities Exchange in 1988. In 1991, the Company assumed its current name, establishing its Tokyo headquarters in the following year. In recent years, the Company has established video game machine and software development subsidiaries in Japan and overseas, expanding its business as a corporate group. Konami continues to promote its business not only as a game maker but also as a "computer entertainment enterprise."

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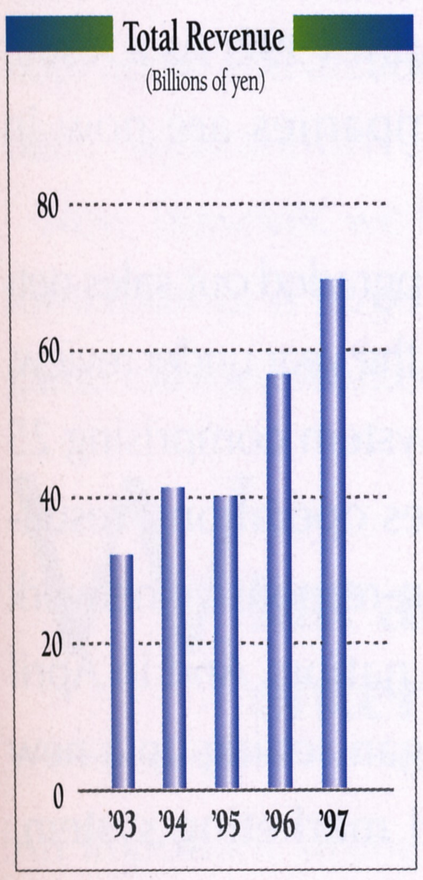
Consolidated Financial Highlights

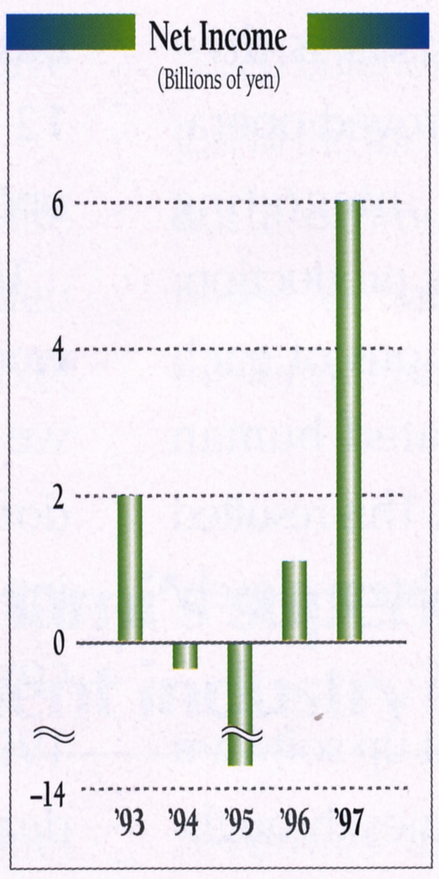
Konami Co., Ltd. and Subsidiaries Years ended March 31, 1997, 1996 and 1995

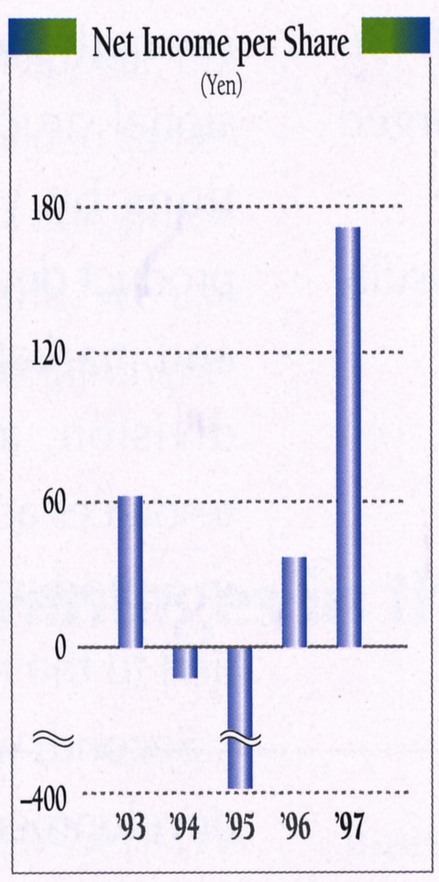
	Millions of Yen			Thousands of U.S. Dollars
	1997	1996	1995	**1997**
For the year:				
Total revenue	**¥69,436**	¥56,491	¥39,922	**$559,517**
Operating income (loss)	**6,597**	3,345	(10,082)	**53,159**
Income (loss) before income taxes, minority interest, write-off of excess of cost over net assets of subsidiaries acquired and translation adjustments	**6,478**	1,726	(13,711)	**52,200**
Net income (loss)	**6,024**	1,317	(13,172)	**48,541**
Capital expenditures	**4,661**	3,321	8,477	**37,558**
R&D expenditures	**10,378**	6,644	5,064	**83,626**
Cash flow	**8,846**	3,916	(10,969)	**71,281**
At year-end:				
Total assets	**¥83,533**	¥75,413	¥60,949	**$673,110**
Total shareholders' equity	**38,645**	25,730	25,827	**311,402**
Return on equity (%)	**18.7%**	5.1%	(40.4)%	
Return on assets (%)	**7.6**	1.9	(19.4)	

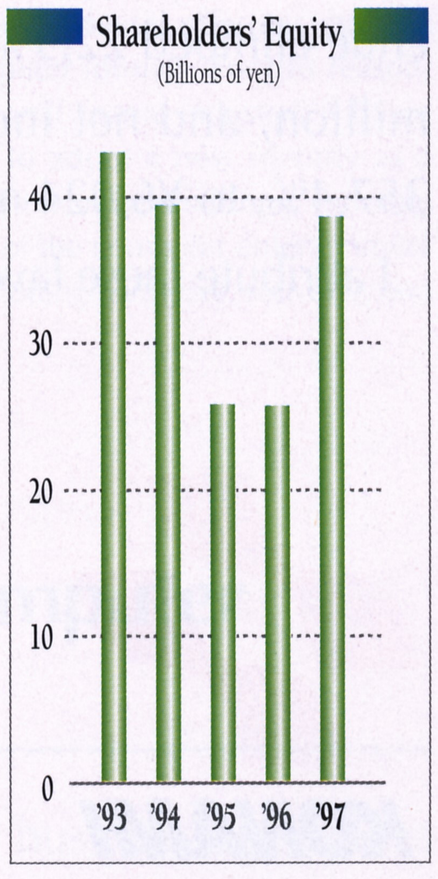
	Yen		U.S. Dollars
Per-share data:			
Net income (loss)	**¥173.47**	¥39.77	¥(397.88)	**$1.40**
Cash dividends applicable to the year	**30.00**	17.00	17.00	**0.24**

Notes: 1. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥124.10 to $1, the rate of exchange at March 31, 1997.
2. Cash flow is the sum of net income (loss) and depreciation and amortization.









Interview with Kagemasa Kozuki

With the current rapid expansion of the market for computer entertainment, competition among manufacturers is intensifying. In this section, we present the views of top management in the form of an interview with Kagemasa Kozuki, who discusses Konami's performance in the year ended March 31, 1997, as well as strategies to assure the Company's survival in the future.



Chairman of the Board and
Chief Executive Officer
Kagemasa Kozuki

How do you evaluate Konami's performance in fiscal 1997?

The parent company recorded a 28.1% increase in net sales, which amounted to a record-high ¥55,235 million for the term. Net income jumped 90.2%, to ¥6,004 million. On a consolidated basis, total revenue climbed 22.9%, to ¥69,436 million, and net income surged 357.4%, to ¥6,024 million.

I attribute these favorable results to various management strategies designed to ensure swift and appropriate responses in a climate of rapid change and development of markets.

Specifically, first we clarified and strengthened our business divisional structure, improved operations by vertically integrating product development, production, and marketing functions of each division, and allocated human resources accordingly. This resulted in a product supply system closely tied to the market.

Second, we have set up software development companies throughout Japan, with the objective of securing the services of highly talented software development personnel. In fiscal 1997, we formed three software development companies, and another three started business in April 1997. As a result, 12 such companies are now in operation.

Third, we upgraded our sales network. During the year under review, we set up a system comprising 25 domestic sales operations, resulting in a region-responsive network covering the nation. And in April 1997, we began setting up a new dealer-based marketing system,

centering on influential regional distributors. Overseas, we established and reinforced our sales operations, focusing on Asian markets with high-growth forecasts, such as Singapore, Hong Kong, Shanghai, Dalian, and Tianjin.

Back in fiscal 1995, Konami posted a net loss. In fiscal 1996 and 1997, however, we achieved consecutive favorable results. Based on these results, I am pleased to report that Konami is now steadily expanding its operations as a stable, growth-oriented company.

How do you expect the domestic computer entertainment industry to evolve in the future?

We have adopted a new concept for our business, referring to it as the "computer entertainment industry," as opposed to the "game industry" description of the past.

Previously, the game industry was classified into two parts—home video games and arcade games. Today's game industry evolved from arcade games, which were increasingly employed in amusement centers and other facilities. Since the appearance of machines specifically for home use, the markets for both home and arcade games have been hardware-driven.

Now, however, we have seen the formation of a huge home video game software market. This market has grown and now occupies a leading position within the entire game market, with a more than 50% share. As a symbol of this market's importance, the Computer Entertainment Software Association (CESA) was established with the approval of Japan's Ministry of International Trade and Industry. CESA's formation is one illustration of how the home video game software industry has grown and earned widespread social recognition.

In the future, new means of home-based entertainment will appear, not just in the form of home video games but also through various computer-based formats. At Konami, we use the term "computer entertainment" to refer to entertainment derived through these varied formats. I believe there is great potential for the computer entertainment industry to develop into an even larger business including the game industry.

Konami stands ready to enter a new era, not simply as a game producer but as a "computer entertainment enterprise."

Note: The term "computer entertainment" refers to entertainment supplied via computers. In the future, consumers will be able to enjoy not only home video games but also a broad array of exciting digital offerings through various computer formats. For this reason, the conventional "game industry" is being encouraged to adopt a new identity as a "computer entertainment industry," offering all elements of the computer entertainment business, including hardware, software, and services.

What are Konami's superior advantages in the computer entertainment industry?

An important strength is the fact that the Company earns stable revenues as a comprehensive entertainment enterprise, having built diverse business operations centering on home video game

software and arcade game hardware and software.

In particular, we are the only large company in the entire computer entertainment industry to adopt a "multiplatform strategy" for home video game software. This gives Konami a considerable competitive advantage in the industry.

Currently, three major hardware platforms are competing for market share. They are Playstation, by Sony Computer Entertainment; Sega Saturn, by Sega Enterprises; and Nintendo 64, by Nintendo. Most software makers supply only to one particular platform. As a result, the software sales volume of such companies fluctuates substantially according to market penetration of the particular platform they supply. If the platform succeeds in expanding market share, sales of software will potentially grow, but if the platform's share declines, software sales will fall with it. This results in a high-risk, high-return business situation.

Konami, by contrast, supplies game software for all hardware platforms in line with its multiplatform strategy. Under the strategy, we select the currently dominant platform and emphasize supply of products for that platform. And if the market share of a platform declines, we can maintain secure revenues by supplying products for another platform that is performing well. In this way, our business is not affected by changes in market shares of individual platforms, and we can generate stable revenues as long as the software market continues to grow.

In these ways, our multiplatform strategy provides advantages over other suppliers.

Note: "Multiplatform strategy" refers to our marketing strategy of offering home video game software for all major hardware platforms.

What are the advantages of establishing separate software development companies?

Konami's network of separate game software development companies is a central pillar supporting the Company's growth.

Each of our software development companies has unique characteristics. For example, Konami Computer Entertainment (KCE) Tokyo develops software mainly for hardware supplied by Sony Computer Entertainment, while KCE Osaka concentrates on Nintendo, and KCE Yokohama specializes in software for Sega Enterprises. By making decisions on which hardware platform to supply software for, each company can develop products in unison with its respective hardware manufacturer. By decentralizing software development into separate companies, we can develop products in close cooperation with hardware manufacturers, which in turn permits improvements in quality of software developed.

Furthermore, when signs begin to appear that a platform's market share will change, we can reallocate our human resources accordingly. By making such changes in development

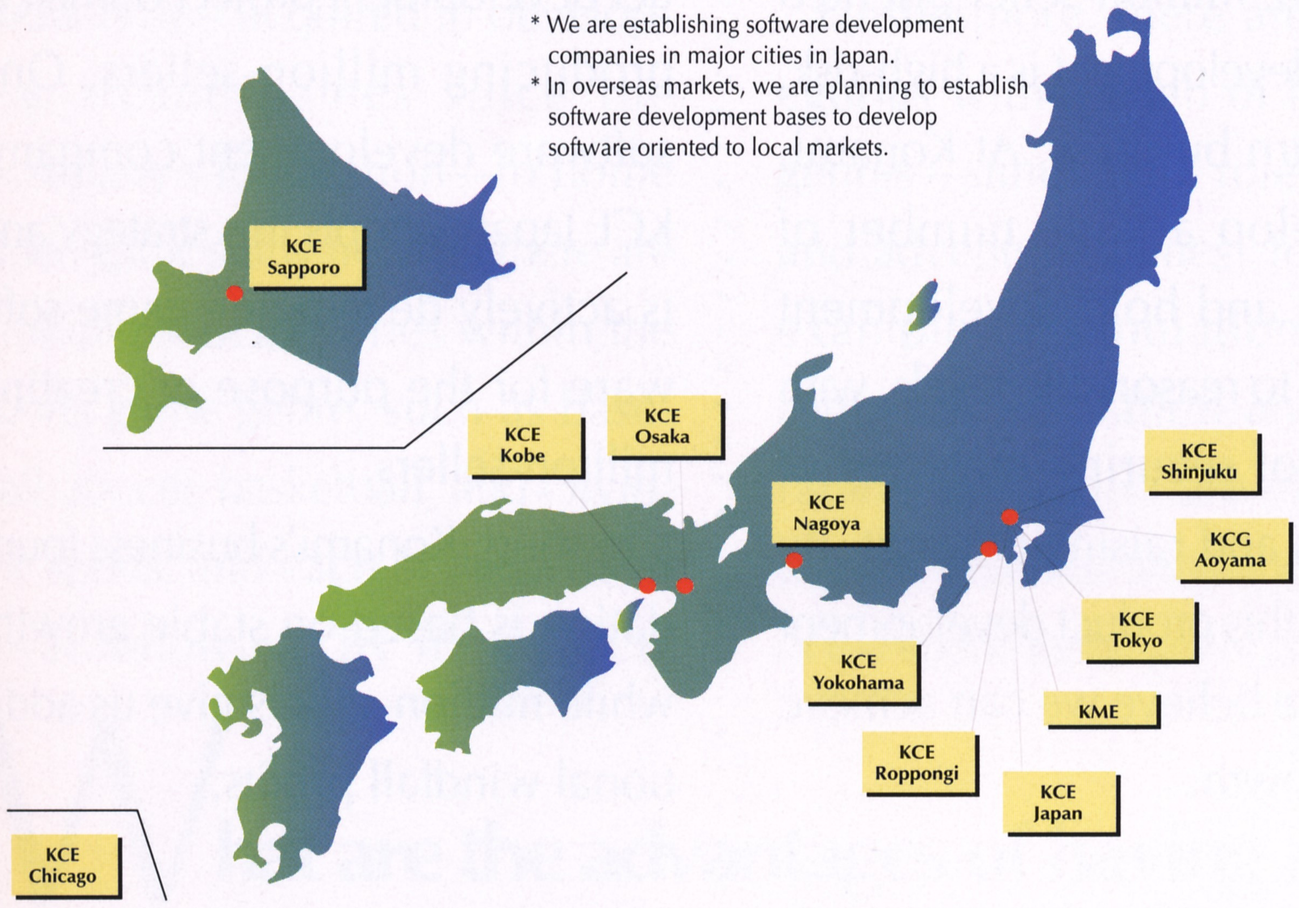
personnel, we can improve our supply of software for platforms that are performing strongly, thus permitting stabilization of revenues.

In addition, our software development companies are not concentrated in Tokyo, but spread among a number of large cities. By establishing strong development capabilities in various locations, we seek to attract excellent software development staff locally.

In these ways, establishing separate software development companies enables us to realize a business structure conducive to attracting top-quality staff, raising product quality, and generating stable revenues.

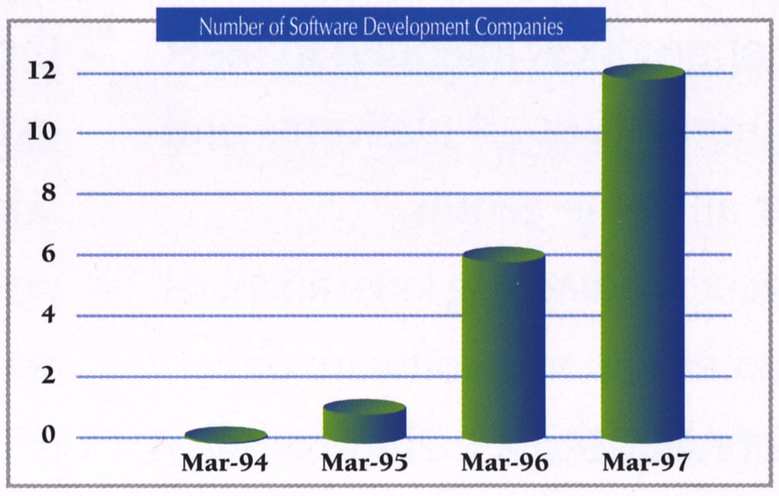
Software Development Companies

~Increasing Competitiveness and Establishing a Stable Development System through a Growing Number of Software Development Companies~



Software Development Companies and Main Targeted Platform Maker or Product

KCE Tokyo	Sony
KCE Osaka	Nintendo
KCE Roppongi	Software for Amusement Machines
KCG Aoyama	Windows95
KCE Japan	Sony
KCE Nagoya	Sony
KCE Sapporo	Sony
KME	Music CDs
KCE Yokohama	SEGA
KCE Shinjuku	Sony
KCE Kobe	Nintendo
KCE Chicago	Software for Amusement Machines, and Consumer Software



What is the relationship between Konami and the software development companies?

Currently, most of the companies are wholly owned by Konami. In the future, however, we intend to raise the level of independence in line with their growth. Public share offerings are part of our vision for the future.

One role of the parent company is to foster the growth of each software development company. To this end, we are working hard to raise employee morale through such innovations as performance-based salary systems and the issue of stock options. In this way, we have built a system that operates on incentive-based principles.

Some software makers invest huge sums in product development, in the hope of creating so-called "million-seller" products. What is Konami's policy regarding million-sellers?

We maintain a business structure that does not depend on million-sellers. In fiscal 1998, we are scheduled to launch a far greater number of software titles than in fiscal 1997, and practically all of these will target stable revenues. To achieve steady growth as a game software maker, we are developing a multitude of products intended to meet requirements of all platforms and cover all game genres.

In general, directing large financial resources to game software development leads to a high possibility of creating a million-seller. However, since there is no guarantee that development expenses will be recovered, million-seller-oriented product development is a high-risk, high-return business. At Konami, we develop a large number of products and hold development expenses to reasonable levels, with the aim of securing recovery of expenses and raising of profit. By adopting this product development policy, we believe we can achieve stable growth.

In addition to building a business foundation targeting stable growth, we are involved in several product development projects aimed at producing million-sellers. One software development company, KCE Japan, adopts this strategy and is actively developing game software for the purpose of creating million-sellers.

In short, Konami's business foundation is based on stable growth, while million-sellers give us additional windfall profits.

How do software development lead times affect business results?

In cases of large-scale software development projects requiring several billions of yen in development expenses, a single delay in the development schedule would have a huge impact on business results. At Konami, however, we have held development expenses to reasonable levels for practically all our products, consistent with our stable revenue objective. As a result, a delay in the development of a certain title will not have a significant effect on the Company's overall performance. And with such a large number of titles being developed each year, the effect of a development delay for one title is even further reduced.

In these ways, Konami's software development policy is designed to minimize the impact of development schedule delays on the Company's business results.

What is your policy on game genres?

People say that "Konami is the name in sports games." This accurately reflects the excellent market response to Konami's sports genre offerings. Our success stems from our application of sports-related know-how—acquired in developing arcade games since the Company's foundation—to home video game software. And there are multiple subcategories within the sports game genre, such as baseball, soccer, basketball, and Olympic sports, and each of these has a loyal following. By introducing powerful titles in all subcategories, we have attracted a steady base of fans and secured stable revenues. By regularly launching new titles in the sports genre, we believe we can achieve solid growth.

Furthermore, there are subcategories within each of the other genres—simulation, role-playing, and adventure games. To cite the example of simulation games, romance simulation and horse-racing simulation are especially popular recently. Similar to the case of the sports game genre, our policy is to launch titles in all genres and subcategories in order to attract loyal followings. Simulation and role-playing games have a particularly broad base of fans, which increases the potential for creating million-sellers. For this reason, we will devote extra effort in the future to developing software for these genres.

Konami will continue to successively launch new titles in each game genre. We believe that this will attract expanded numbers of Konami fans and help realize sustained, stable growth.

What are the advantages of having a sales network of exclusive dealers?

Konami was the only game software maker in Japan to have its own direct-marketing distribution network. In April 1997, this network was transformed into a system of independent dealers. Each dealer was established with equity participation of powerful regional wholesale distributors and is completely independent of Konami for capital input. However, each dealer handles Konami's products exclusively and thus functions as a part of the Konami Group network.

Overseas, our sales operations are covered by local Konami subsidiaries and representative offices, covering the three major regions of North America, Europe, and Asia.

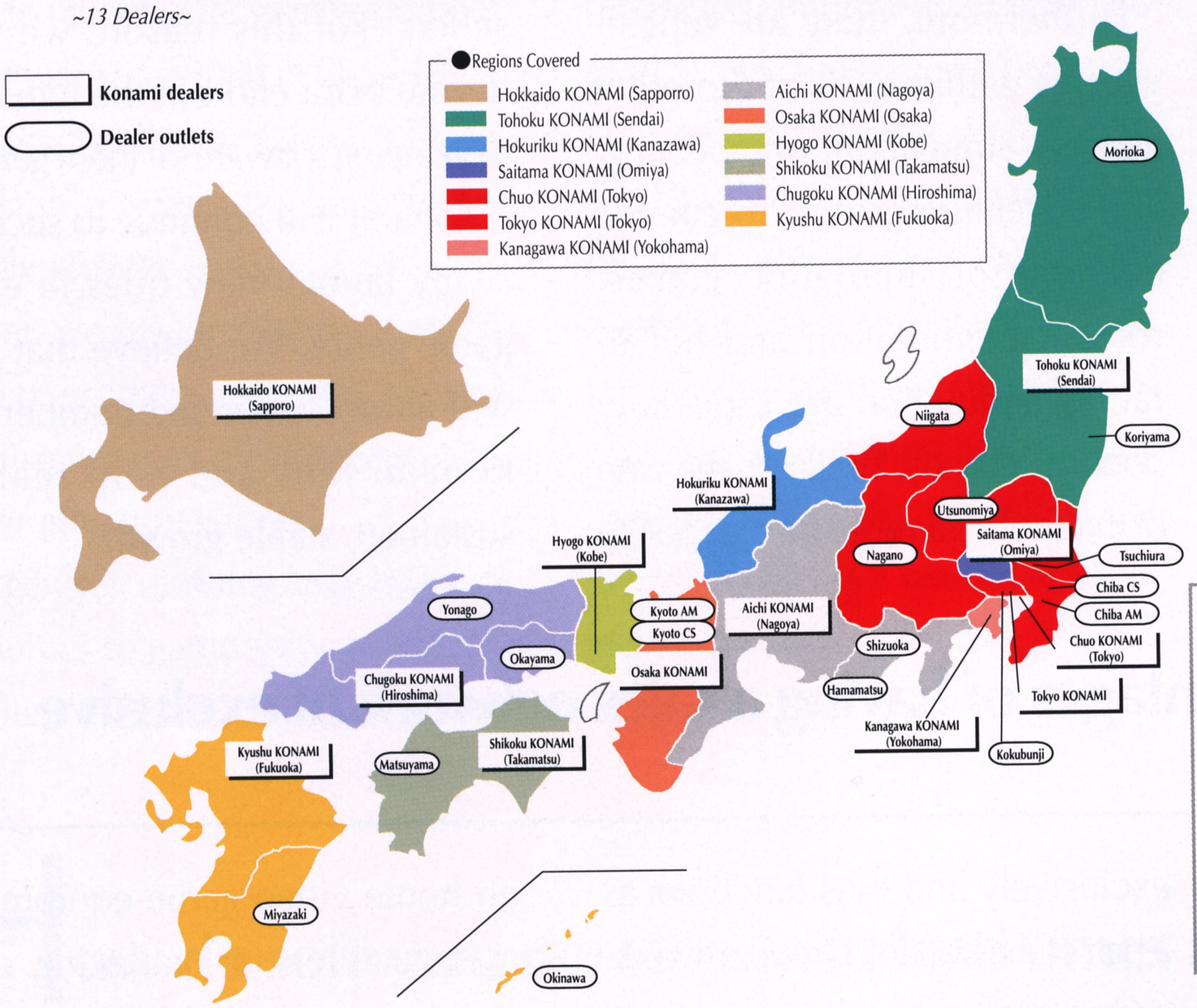
Given the size of the home video game software industry, its distribution systems are relatively underdeveloped. In most cases, software producers have relied on home video game equipment manufacturers for marketing, and so have not been able to monitor demand trends or inventory status. As a result, they have faced such situations as missed sales opportunities due to production not keeping pace with demand, as well as being burdened with dead stock.

At Konami, we do not depend on home video game equipment manufacturers. Instead, we deliver products directly to retailers via our dealer network. Feedback provided by the dealer network allows us to monitor demand trends and inventory levels on a daily basis. To avoid missed sales opportunities and dead stock, it is essential that we determine production volumes based on information from the distribution side. With our own sales network, we are the only company in the industry able to make market-related decisions based on such information. In other words, only Konami can take measures to minimize lost sales opportunities and dead-stock situations.

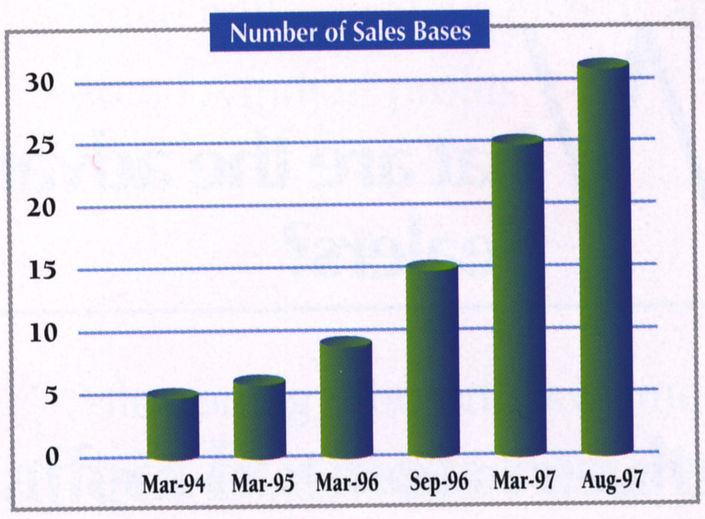
Strongest Network in the Computer Entertainment Industry

(August 1997)

~13 Dealers~



As shown on the map at left, Konami's 31 sales locations cover all districts of Japan, allowing a system of direct sales. No other company in the computer entertainment industry has this type of sales network. On April 1, 1997, Konami received investments from major regional distributors and restructured its sales bases, turning them into distribution companies for marketing Konami products.



What is your strategy for the arcade game business?

Konami is developing its arcade game business in two categories. One is amusement machines centering on video games, and the other is gaming machines, mostly based on token-operated games.

Our amusement machines boast the most advanced computer graphics technologies in the industry. In

the future, we will launch machines employing COBRA, a printed circuit board for 3-D computer graphics developed jointly by Konami and IBM Japan. Created using the most sophisticated technologies in the industry, COBRA's most striking feature is the unparalleled depth perception level of its graphics.

In gaming machines, we already have a leading market share in Japan, and we will devote efforts to expand this business overseas.

We have great expectations for growth in both categories of arcade games. And we predict that machines will become even more sophisticated due to the adoption of computerized technologies. We will build on our main strengths—top-level software development and product planning—and where necessary collaborate with computer and electronics manufacturers with device- and hardware-related technologies, with the aim of leading this growing market in the future.

What is your policy on shareholder value?

Maximizing shareholder value is one of Konami's important management objectives. In line with this, we declared annual dividends of ¥30.00 per share for fiscal 1997, and we plan to keep dividends at levels acceptable to shareholders, in line with continuation of growth in profits. Our standpoint is that continuous and stable corporate growth is part of our responsibility to shareholders, and we also recognize that planned reinvestment to foster new growth is also an important element of shareholder value. Especially in the high-growth computer entertainment industry, reinvestment of profits is an effective way to raise corporate value.

With this in mind, instead of making unilateral decisions in favor of either cash dividends or reinvestment, we will strive to enhance shareholder value while maintaining a balanced approach that reflects our business progress.

As we work to realize our goal of becoming a global corporation that conforms to international standards, we will endeavor to make advances in markets where sustained expansion is predicted, in order to build a business structure conducive to stable growth.

And with a business structure based on a foundation of stable growth, we wish to make Konami an attractive investment, not only for short-term investors but also for long-term investors managing pension funds and other funds that prioritize year-to-year growth stability and dividend payout.

We believe that maintaining stable dividends and improving corporate value are important considerations for all those who have invested in our company, and our management objective is to continue pursuing this policy. We look forward to your support in the future.

Konami's Competitive Advantages in

Konami's competitive advantages in the computer entertainment industry are based on its fundamental marketing strategies and high-level technological capabilities. In this section, we outline two key Konami advantages—its consumer software marketing strategy and its technological strength in amusement machines.

ADVANTAGE 1

Consumer Software Marketing Strategy

Konami's consumer software marketing strategy has two primary features. The first is our adoption of a multiplatform strategy covering all hardware platforms, and the second is our supply of products for all game genres. The distinctive aspects of Konami's marketing strategy have enabled the Company to achieve stable growth. In an industry characterized by drastic change, very few companies are able to build a business structure conducive to stable growth. Therein lies a source of Konami's competitive advantage.

Stabilizing revenues through our multiplatform strategy

Konami adopts a multiplatform strategy entailing the supply of game software for all major hardware platforms.

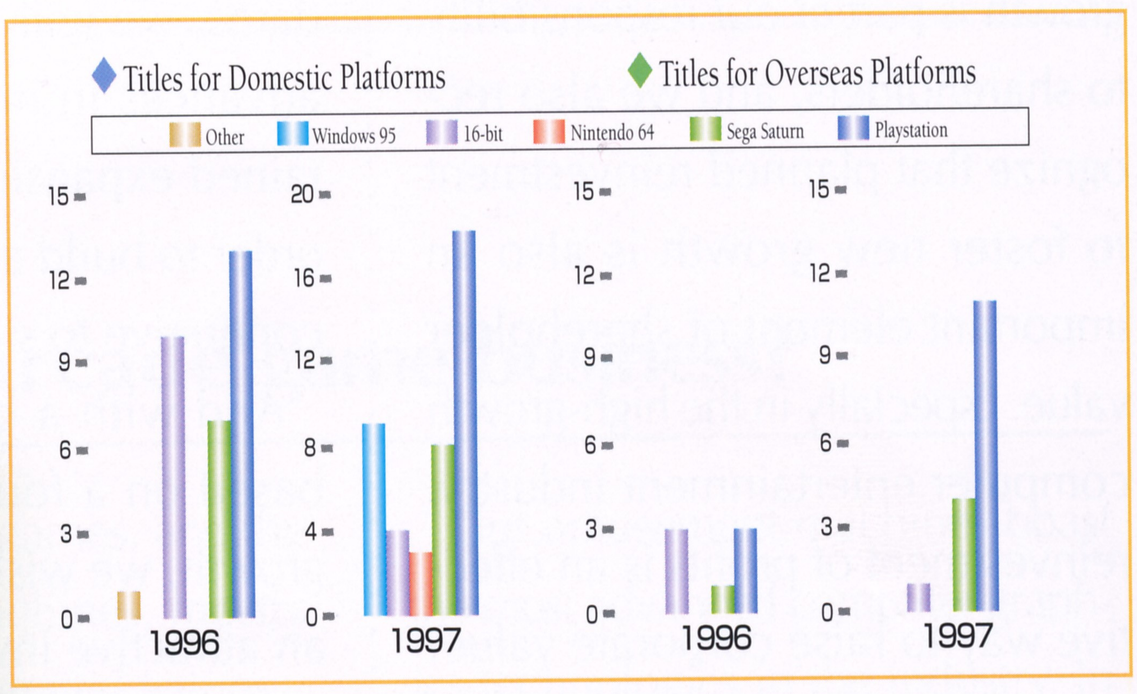
Today's home video game market is dominated by three hardware platforms—Playstation, Sega Saturn, and Nintendo 64. Practically all software makers supply for only one particular platform, and so changes in the market share of platforms affect the sales volume of the companies supplying the software.

Konami, however, pursues a multiplatform strategy, which allows the Company to secure revenues even in the event of changing market shares of platforms. According to this strategy, we select a platform that is expected to become dominant, and then we emphasize supply of software for that platform, enabling us to secure revenues as a result.

Currently, Konami is the only company in the industry implementing a multiplatform strategy. This provides advantages for Konami that cannot be enjoyed by other companies.

Note: In fiscal 1997, Konami launched 29 titles for Playstation, 12 for Sega Saturn, and three for Nintendo 64.

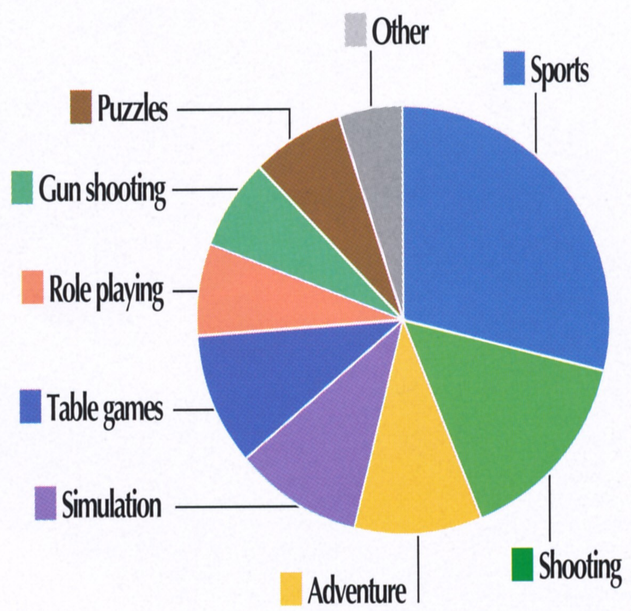




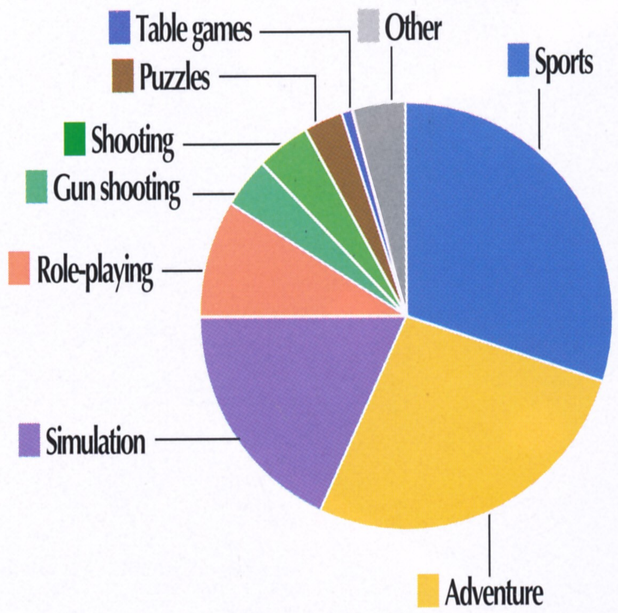
he Computer Entertainment Industry



Game Genres Covered by Konami



Fiscal 1997



Fiscal 1998
(plan)

Product strategy covering all game genres

Konami pursues a policy of supplying software for all video game genres.

Today's home video games can be classified mainly into sports, adventure, simulation, role-playing, and other genres. All these genres also have subcategories that have their own fans. The sports genre, for example, contains such subcategories as baseball, soccer, basketball, and Olympic sports, and each of these has a loyal following.

Konami is launching powerful titles for all genres, and for all categories within each genre. As a result, we can attract all types of game fans, which allows us to secure stable revenues. By securing revenues based on our product strategy of covering all genres, we have been able to amplify our competitive advantage as a leading consumer software supplier.



TOKIMEKI MEMORIAL
(simulation)



WORLD SOCCER 3
(sports)



OTHER LIFE AZURE DREAMS
(role-playing)

Konami's Computer Graphics Technologies

(Comparison of primary printed circuit board functions)

Million polygons/second
(This axis indicates the number of polygons (usually triangles) that can be displayed in one second over the entire screen.)

2.0
1.6
1.2
0.8
0.4

COBRA

COBRA technology is capable of performing at 5 million polygons per second, but is being commercialized at the current market maximum of approximately 1 million polygons per second.

Hornet

Scorpion

Phoenix

20 40 60 80 100

Million pixels/second
(A pixel is the smalle single image element (red, green, or blue) that can be displayed This axis indicates the number of pixels that can be displayed in one second over the entire screen.)

ADVANTAGE 2

Technological Strength in Amusement Machines

Our amusement machines business covers development and manufacture of video game equipment used for arcade games. One aspect of our top-level technological strength in this field is computer graphics (CG). One specific result of our superior CG capabilities is COBRA, which is outlined below. Our technological strength derives from our substantial product development capabilities. These, in turn, benefit from continually improving technological and R&D capabilities and constitute a major resource underscoring the Company's competitive advantage.

Development of COBRA 3-D CG technology

In collaboration with IBM Japan, Konami has jointly developed a 3-D CG technology entitled COBRA, which boasts 5 million polygon-per-second performance and the highest specification standards in the industry. The use of COBRA technology brings photograph-quality resolution and unparalleled depth perception to graphics.

(The photograph on the opposite page shows RACING JAM, a car-racing game based on COBRA technology, due for release in the autumn of 1997.)

Substantial product development system

A major feature of Konami's amusement machines business is its integrated product development and production system.

At the core of this business is the Kobe-based Amusement Machines Division, which integrates basic research, product development, and production activities. This integrated development and production system facilitates the speedy accumulation of technologies from diverse fields. One technology leads to the development of another, and the Company's entire technological level is raised as a result. By applying accumulated technologies to the development of new technologies and products, we have created a synergistic system that fosters higher levels of technological expertise.

Our work in basic technologies focuses not only on CG, sound, programs, mechatronics, and hardware technologies but also on human sight and hearing. Basic technologies in these areas will become crucial elements of tomorrow's amusement machines and will form the basis of next-generation products.

Through its high-level product development system, Konami encourages the accumulation of in-house technologies, which in turn are applied to create new technologies, thus strengthening the Corporation's overall technological capability.

To better develop products that closely match customer needs, we have organized part of our product development into separate companies—Tokyo-based KCE Roppongi and U.S.-based KCE Chicago. These two companies develop amusement machines geared to their particular regions.

Furthermore, in order to locate and educate the next-generation of creators, we established the KCE School as a member company of the Konami Group. We are confident that people educated at this school will join and play an important role in the Konami Group.



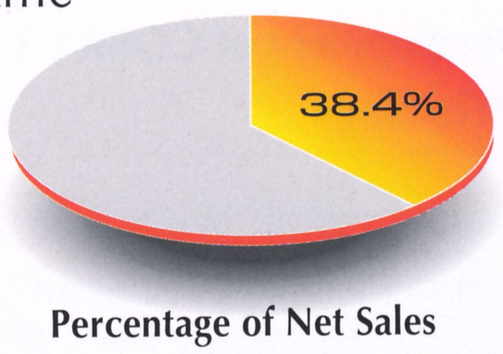
The KCE School is located in Konami's Port Island building in Kobe.



Game creators of the future are trained at the KCE School.

Consumer-Use Software

In the Consumer-Use Software Division, 792 highly talented R&D technicians from all of the Company's 10 software development subsidiaries develop creative game titles that bring joy and sensation to a wide range of customers in Japan and overseas. At the same time, the Company is aggressively expanding its business through an extensive distribution network and overseas product development operations.



Percentage of Net Sales







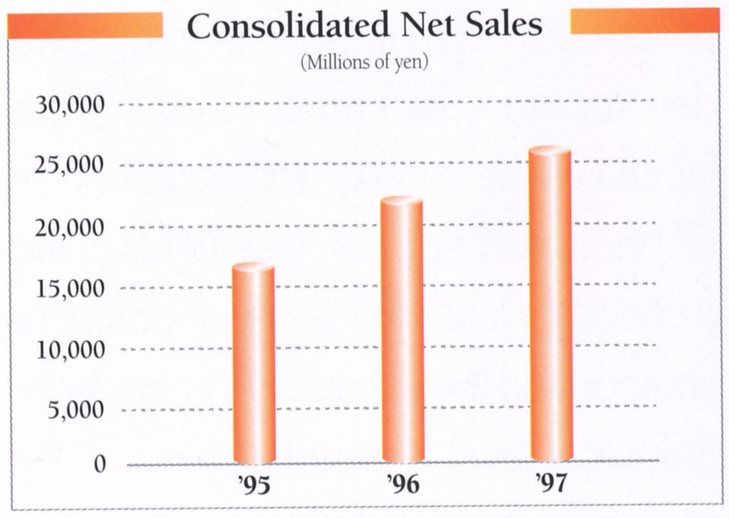
INTERNATIONAL SUPERSTAR SOCCER 64

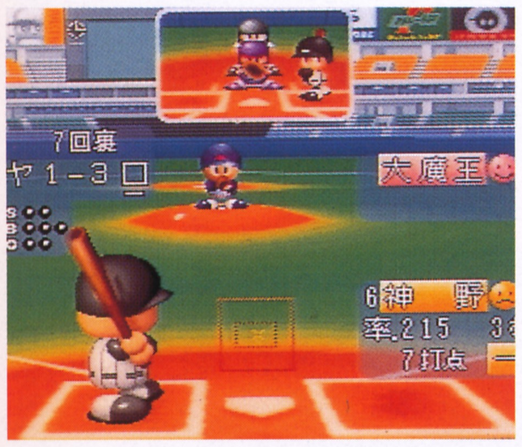
Market Environment

While the market for software titles for 32-bit home video game systems continued to expand solidly, a new market for 64-bit home video game systems began to take shape. As a result of the sharp increase in the number of titles launched in the market, newly introduced titles are divided into two categories—those that sell well and those that sell poorly—depending on product quality and sales promotion competence.

Performance

Amid growing competition for market share among home video game





POWERFUL PRO BASEBALL '97



TOKIMEKI MEMORIAL
Drama Series (Volume 1)



GOEMON



OTHER LIFE AZURE DREAMS



METAL GEAR SOLID

makers, we launched a variety of new titles compatible with all major hardware platforms and secured solid revenues, facilitated by our exclusive sales channels, one of our advantages as a major software maker. During the year, Konami participated in the first Tokyo Game Show, hosted by the Computer Entertainment Software Association, and drew a strong response from Japan and abroad. Out of 58 titles launched in fiscal 1997—38 titles more than in the previous year—five titles were designed for 16-bit home video game systems; 41 titles for 32-bit systems, such as INTERNATIONAL TRACK & FIELD, VANDAL HEARTS, and TOKIMEKI MEMORIAL; three titles for 64-bit systems, such as POWERFUL PRO BASEBALL 4; and nine titles for personal computers.

As a result, consolidated sales of the Consumer-Use Software Division increased 17.6%, to ¥26,674 million; on a nonconsolidated basis, divisional sales rose 15.0%, to ¥22,207 million.

Outlook

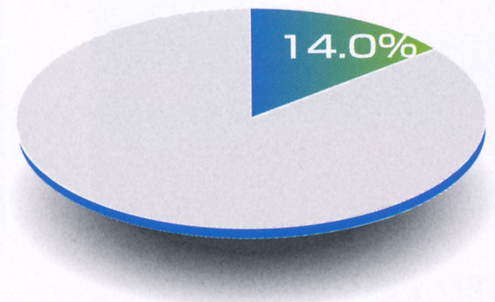
In the year ahead, Konami will continue its strategy of servicing multiple hardware platforms, and plans to launch a large number of titles, especially for 64-bit home video game systems, the market of which is expected to expand rapidly in the near future. We will offer titles for each game genre, with special emphasis on developing million-seller titles, as well as sports and story-telling titles. To attract new customers, we will conduct active sales promotion and upgrade our product lineup. In addition, by launching products developed overseas, we will steadily increase international sales in the future.

Subsidiaries within the Consumer-Use Software Division

Konami Computer Entertainment Tokyo Co., Ltd.
Konami Computer Entertainment Osaka Co., Ltd.
Konami Computer Games Aoyama Co., Ltd.
Konami Computer Entertainment Japan Co., Ltd.
Konami Computer Entertainment Sapporo Co., Ltd.
Konami Computer Entertainment Nagoya Co., Ltd.
Konami Computer Entertainment Shinjuku Co., Ltd.
Konami Computer Entertainment Yokohama Co., Ltd.
Konami Computer Entertainment Kobe Co., Ltd.
Konami Computer Entertainment Chicago Inc.

Amusement Machines

Konami's Amusement Machines Division, based in Kobe, boasts a fully integrated product development and manufacturing system. Using the most sophisticated computer graphics (CG) technologies, Konami consistently produces imaginative amusement machines for users all over the world.



Percentage of Net Sales



RACING JAM
(based on COBRA technology)



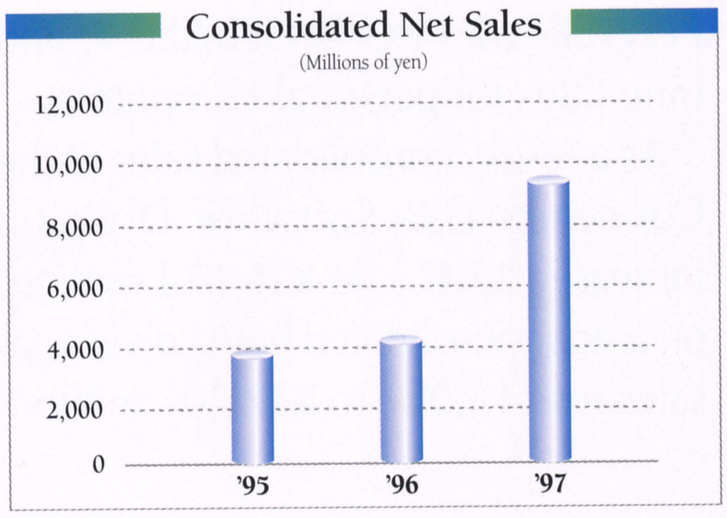
GTI CLUB

Market Environment

The Japanese market lacked vitality due to the small number of attractive video game titles, although a new market was formed for photo-sticker vending machines, which take people's close-up photographs and reproduce them onto stickers. Overseas, markets for amusement machines are expanding steadily, especially in Asia, keeping pace with economic growth in that region.

Performance

In such a market environment, Konami extended its main product





POLYKIDS



VERSUS NET SOCCER



SUPER BISHI BASHI CHAMP

line, while placing emphasis on development and introduction of products employing highly advanced 3-D CG technologies. New titles were well received in Japan and overseas, especially the 3-D CG driving video game, GTI CLUB, as well as WINDING HEAT and such sports-simulation games as HANG PILOT and JET WAVE. These titles were especially well received in overseas markets.

As a result, consolidated sales of the Amusement Machines Division increased 126.4%, to ¥9,693 million; on a nonconsolidated basis, divisional sales rose 103.6%, to ¥9,392 million.

Outlook

COBRA, developed jointly by Konami and IBM Japan, features the most advanced 3-D CG technologies available. Video games based on COBRA technology will be released in fiscal 1998, thus activating video game markets in Japan and overseas. Sports-simulation titles featuring self-contained motion systems and applying conventional 3-D CG technologies will also be successively launched.

In relation to product development and manufacture, we supply products from our new integrated R&D and production facility in Kobe, which commenced full-scale operations in April 1997. In response to increasing sales in international markets, we will promote production in overseas markets and accelerate establishment of sales outlets and service facilities worldwide.



HANG PILOT



Amusement Machines Division headquarters (Kobe)

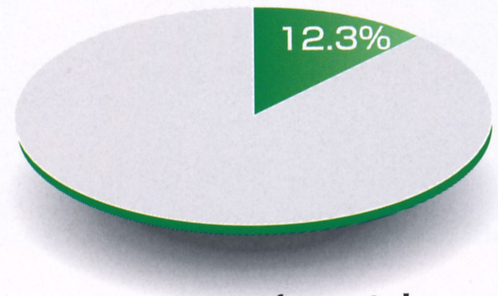
Subsidiaries within the Amusement Machines Division

Konami Computer Entertainment Roppongi Co., Ltd.

Konami Computer Entertainment Chicago Inc.

Gaming Machines

Boasting an integrated product development and manufacturing system, the Gaming Machines Division, located in Zama, west of Tokyo, offers high-quality products that satisfy the needs of adults. Our products have been highly acclaimed in Japan and will be actively introduced to overseas markets.



Percentage of Net Sales



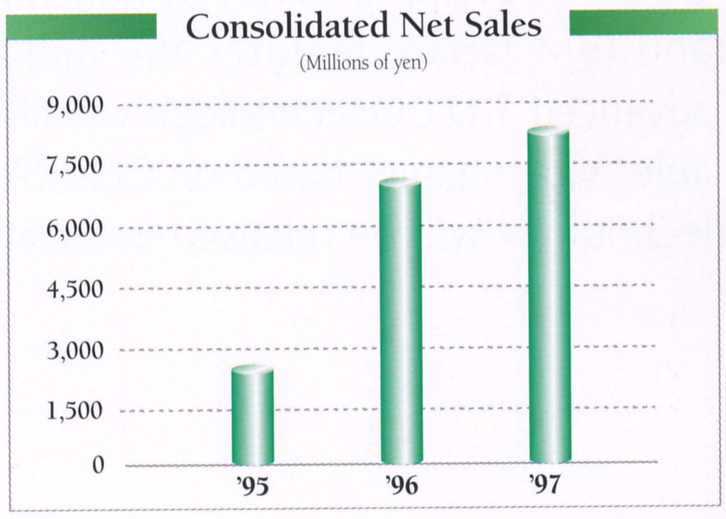
GI CLASSIC WINDS

Market Environment

In the context of recent sluggish growth of the amusement center industry as a whole, large-scale amusement complexes have tended to increase while small and medium-sized operators have declined. As more operators shifted their emphasis to large-scale facilities, a diversity of gaming machines, especially big machines, has appeared. These large machines have become the main attraction in many facilities.

Performance

Shortly after entering the gaming machines industry, Konami has





AQUA TWISTER



MIRACLE SPIN



PURI PURI CANVAS

reached the top rankings in the industry, thanks to active reinforcement of R&D staff and product lines. Previously introduced large machines such as GI CLASSIC and TRIO DE BINGO, as well as newly released products such as GI CLASSIC WINDS, AQUA TWISTER, and DRAGON PALACE, posted steady growth in the term. As a result, Konami has deeply penetrated the domestic market and also achieved some sales overseas, boosted by expansion of Asian markets.

As a result, consolidated sales of the Gaming Machines Division increased 15.8%, to ¥8,512 million; on a nonconsolidated basis, divisional sales rose 15.7%, to ¥8,510 million.

Outlook

Konami is working hard to cultivate overseas markets, targeting Australia as its first step. We will start in fiscal 1998 by introducing our popular large gaming machines, as part of our plan of full-scale entry into the Australian market.

Konami will promote more active development of gaming machines, centering on its integrated R&D and production facility in Zama, Kanagawa Prefecture. We will strive to rejuvenate the market by continuously introducing popular vending machines, such as photo-sticker vending machines and large-scale token-operated units, in the Japanese and international markets.



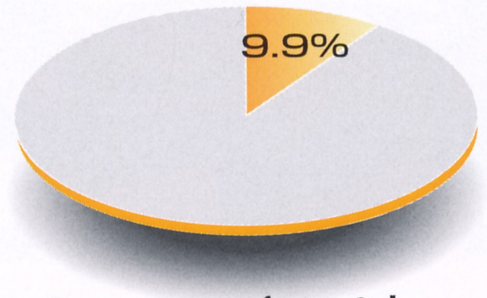
Gaming machines showroom
(Zama, Kanagawa)



Gaming Machines Division headquarters
(Zama, Kanagawa)

Pachinko Systems

The Pachinko Systems Division strives to create new levels of enjoyment in the huge pachinko market by supplying liquid crystal display (LCD) units incorporating Konami's software, which form the core of LCD-based pachinko systems. In the future, the division will expand its business in peripheral devices for pachinko systems.



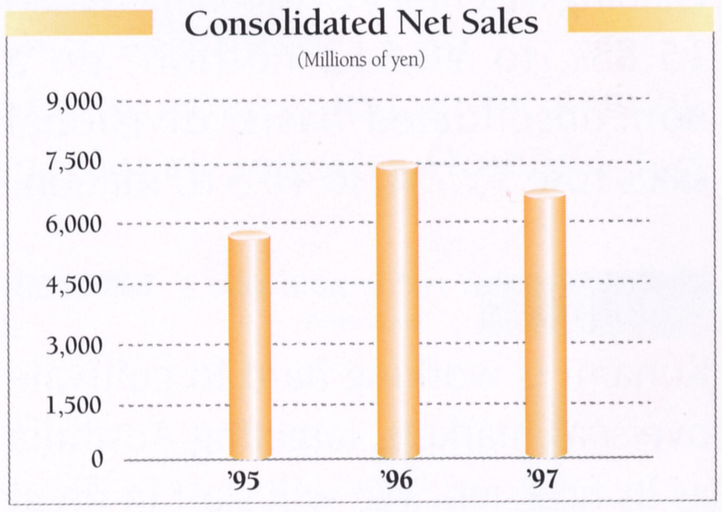
Percentage of Net Sales



DELUCADERUYO Shimbashi, a pachinko parlor operated by Konami Parlor Entertainment

Market Environment

The image of the pachinko industry has been tarnished by highly speculative prepaid machines and cases of prepaid card forgery and tampering, causing the loss of some customers. Faced with such difficult circumstances, the pachinko industry has made great efforts to revive the market by imposing self-regulation and taking measures against illegal practices. Now, the market is showing signs of recovery. A current trend





Gift corner



Pachinko floor



Slot machine floor

shows that more and more pachinko parlors are expanding the scale of their facilities or merging with restaurants and other leisure facilities to form large integrated amusement complexes.

Before any pachinko machine may be marketed in Japan, it must be approved by the Security Electronics Communication Technology Association, a quasi-governmental body under the auspices of the National Police Agency. Standards adopted by the Association, therefore, have considerable influence on machine manufacturers.

Performance

Few new models were introduced as a result of depressed conditions in the pachinko industry, as well as approval of fewer new models by the Association. Existing models, however, generated solid sales, boosted by repeat orders.

As a result, consolidated sales of the Pachinko Systems Division decreased 9.4%, to ¥6,871 million; on a non-consolidated basis, divisional sales dropped 6.6%, to ¥7,088 million.

Outlook

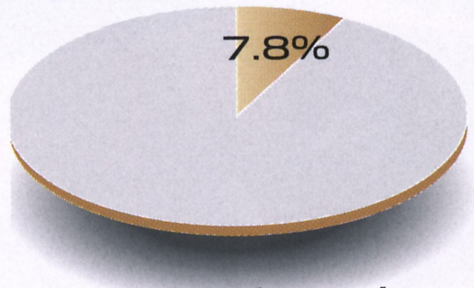
In the future, Konami will continue to develop its pachinko systems business, centering on LCD units incorporating our software, by taking advantage of its competence in software development.



DELUCADERUYO Shimbashi

Creative Products

The relatively new Creative Products Division, using characters from Konami video game software, develops a diversified line of related items, such as character goods, publications, game prizes, virtual artists, and music CDs.



Percentage of Net Sales





Amusement machine prizes



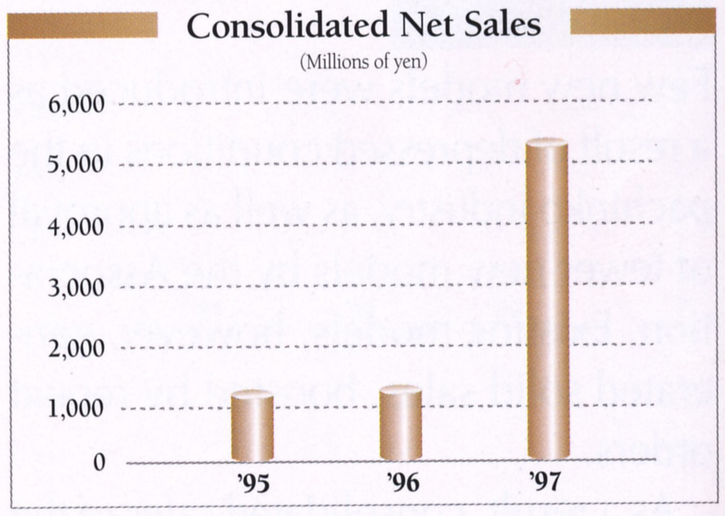




Character goods

Market Environment

The Creative Products Division produces and sells music CDs, jigsaw puzzles, fancy goods, gifts, and other products related to popular game titles. Game music is becoming an increasingly popular part of the music CD market and has grown into a steady business. The market for character goods is also expanding, strongly supported by a broad customer base.







Publications



Music CDs



Konami labels

Performance

In this market environment, the Company sought to develop operations in the music industry based on its proprietary Konami label. In addition, we promoted large-scale growth in the creative products market through the introduction of various character goods, publications, and amusement machine prizes.

In December 1996, Shiori Fujisaki, the central character of the popular TOKIMEKI MEMORIAL video game, made her recording debut as a virtual artist. This debut created a major wave of media interest, particularly involving television and magazines.

On the sales front, the division continued to increase sales volume through the ordinary distribution network. At the same time, in 1997 Konami began a mail-order business allowing on-line ordering via the Internet.

As a result, consolidated sales of the Creative Products Division increased 290.5%, to ¥5,440 million; on a nonconsolidated basis, divisional sales rose 285.7%, to ¥5,373 million.

Outlook

The Division will expand its business in various fields, such as movie production based on its TOKIMEKI MEMORIAL video game, as well as publishing books on game tips and locating talented singers for the music entertainment business. Besides selling creative products, the division is working to capitalize on synergies to advance sales in its main divisions.

Subsidiary within the Creative Products Division

Konami Music Entertainment Co., Ltd.

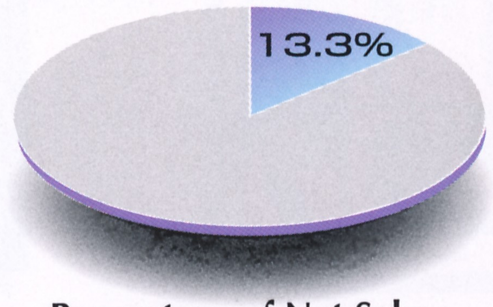




Character goods

Amusement Operations

The Amusement Operations Division was formed in line with Konami's objective of offering places where customers can amuse themselves at any time. Konami continues to plan and develop integrated amusement centers, such as Bigalo and CIRCO PORTO.



Percentage of Net Sales



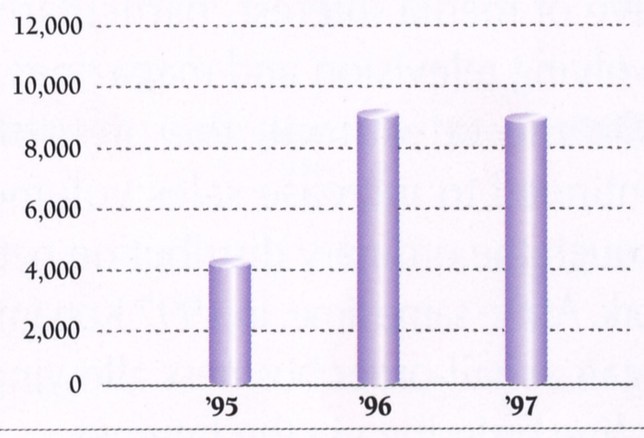
CIRCO PORTO Chayamachi

Market Environment

The opening of more and more integrated amusement centers caused severe competition in this market, widening the performance gaps between individual companies and facilities. Although the market situation was depressed as a whole, the new market created by photo-sticker vending machines was an encouraging sign.

Consolidated Net Sales

(Millions of yen)









Performance

This division operates two types of facilities—Bigalo game centers, located in metropolitan areas, and CIRCO PORTO multileisure complexes, featuring video game machines, casino-style gaming machines, and other equipment. Substantial investments have been made in each type of facility, resulting in increased customer-drawing power and healthy sales.

As a result, consolidated sales of the Amusement Operations Division slipped 1.5%, to ¥9,241 million; on a nonconsolidated basis, divisional sales rose 26.7%, to ¥1,950 million.

Outlook

In the future, the division will expand its operations by opening more facilities and establishing alliances with independent amusement center operators while preserving the profitability of existing centers. In June 1997, the division opened a new center, CIRCO PORTO Chayamachi, in Osaka, as part of its business expansion plans. Our amusement facilities, which also function as antenna shops for all our operations, play an important role in our overall business and will significantly contribute to the future of the Group.



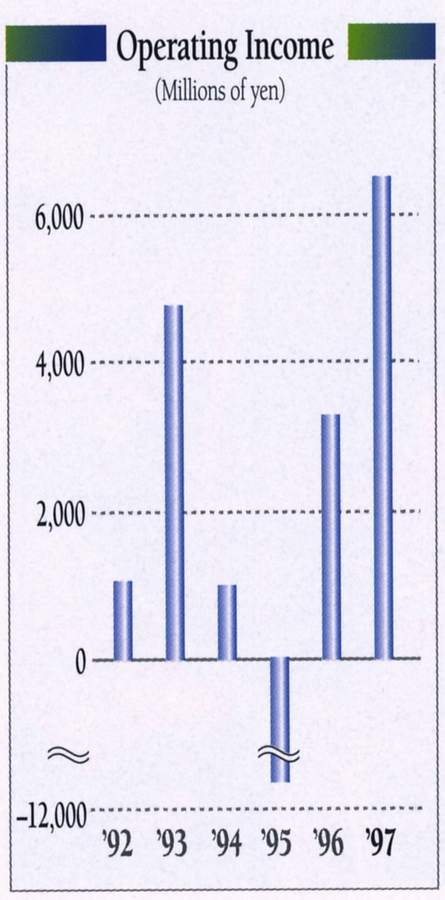
Consolidated Six-Year Summary

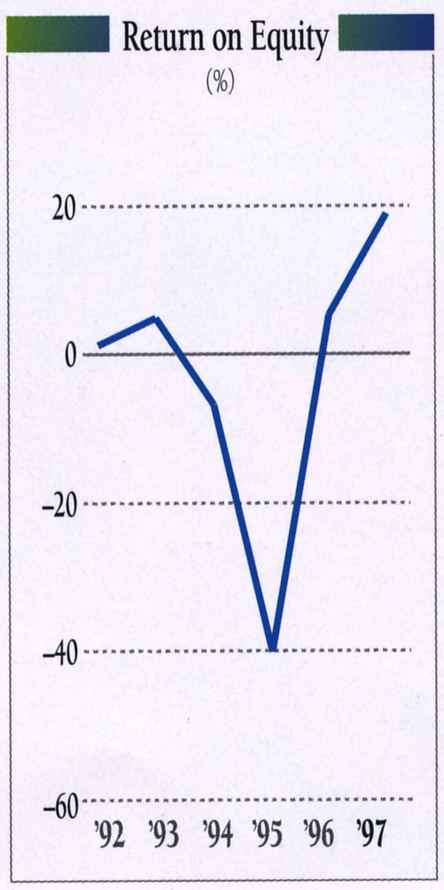
Konami Co., Ltd. and Subsidiaries Years ended March 31

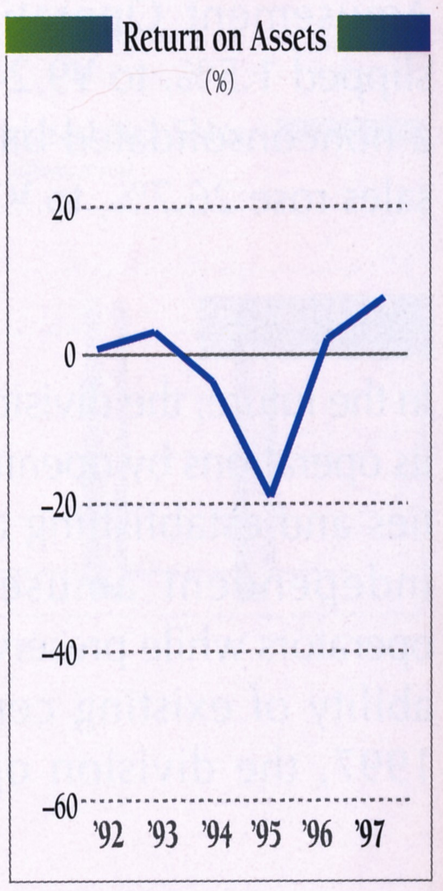
	Millions of Yen						Thousands of U.S. Dollars
	1997	1996	1995	1994	1993	1992	1997
For the year:							
Net sales	¥60,195	¥47,112	¥35,417	¥40,004	¥31,909	¥22,532	$485,053
Revenue from amusement operations	9,241	9,379	4,505	1,111	—	—	74,464
Total revenue	69,436	56,491	39,922	41,115	31,909	22,532	559,517
Operating income (loss)	6,597	3,345	(10,082)	1,046	4,796	1,111	53,159
Income (loss) before income taxes, minority interest, write-off of excess of cost over net assets of subsidiaries acquired and translation adjustments	6,478	1,726	(13,711)	(2,160)	4,976	617	52,200
Net income	6,024	1,317	(13,172)	(2,891)	2,020	415	48,541
At year-end:							
Current assets	45,970	41,208	24,891	44,879	55,857	46,846	370,427
Current liabilities	30,941	23,728	21,916	18,080	18,043	7,478	249,323
Total assets	83,533	75,413	60,949	75,158	75,802	63,299	673,110
Total shareholders' equity	38,645	25,730	25,827	39,435	42,991	41,370	311,402
Payout ratio	17.4	64.0	—	—	14.3	65.2	
Return on equity (%)	18.7%	5.1%	(40.4)%	(7.0)%	4.8%	1.0%	
Return on assets (%)	7.6	1.9	(19.4)	(3.8)	2.9	0.7	

	Yen						U.S. Dollars
Per-share data:							
Net income (loss)	¥ 173.47	¥ 39.77	¥(397.88)	¥ (87.33)	¥ 61.03	¥ 12.52	$1.40
Cash dividends applicable to the year	30.00	17.00	17.00	17.00	8.50	8.75	0.24
Shareholders' equity	1,084.76	777.21	780.12	1,191.19	1,298.57	1,249.61	8.74

Note: The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥124.10 to $1, the rate of exchange at March 31, 1997.







Consolidated Financial Review

RESULTS OF OPERATIONS

In fiscal 1997, ended March 31, 1997, Konami's total revenue amounted to ¥69,436 million, an increase of 22.9% compared with fiscal 1996.

The Consumer-Use Software Division recorded a 17.6% sales gain, to ¥26,674 million, or 38.4% of total revenue. Operating income for the division was up 17.6%, to ¥5,647 million.

Sales of the Amusement Machines Division jumped 126.4%, to ¥9,693 million, or 14.0% of total revenue, and operating income soared 749.6%, to ¥1,198 million.

The Gaming Machines Division posted a 15.8% sales increase, to ¥8,512 million, or 12.3% of total revenue, while operating income grew 148.7%, to ¥1,226 million.

Accounting for 9.9% of total revenue, sales of the Pachinko Systems Division fell 9.4%, to ¥6,871 million. Operating income was down 1.8%, to ¥1,873 million.

The Creative Products Division registered a 290.5% sales increase, to ¥5,440 million, or 7.8% of total revenue, and a 103.5% gain in operating income, to ¥1,170 million.

Revenue from the Amusement Operations Division slipped 1.5%, to ¥9,241 million, or 13.3% of total revenue. The division recorded an operating loss of ¥658 million, down from the previous year's operating loss of ¥1,347 million.

Despite a 21.1% decline in sales of Other businesses, to ¥3,005 million, or 4.3% of total revenue, operating income rose 25.2%, to ¥313 million.

In fiscal 1997, cost of sales climbed 29.4%, to ¥37,760 million, and cost of amusement operations fell 8.7%, to ¥9,529 million. Together, these accounted for 68.1% of total revenue, down 2.0 percentage points from fiscal 1996. The reason for the increase in cost of sales was the rise in net sales, plus an accounting change, which resulted in product development costs being computed as production costs.

As a result, the Company's gross profit grew 31.2%, to ¥22,146 million.

Selling, general and administrative expenses rose 14.9%, to ¥15,550 million. The principal reasons for this increase included a 69.3% jump in advertising and promotion expenses, reflecting higher sales promotion and television commercial expenses in line with the net sales increase. Research and development expenses, however, dropped 92.0%, since the bulk of these were treated as production costs following the accounting change.

As a result, operating income jumped 97.2%, to ¥6,597 million. The operating income ratio climbed 3.6 percentage points, to 9.5%.

Net other expenses were reduced to ¥119 million, from ¥1,619 million in fiscal 1996. Contributing to this result was a 147.7% jump in net foreign exchange gain, to ¥909 million, resulting from favorable fluctuations in foreign exchange markets. In addition, interest expense decreased 44.4%, to ¥533 million.

In the net other category, Konami recorded an income of ¥346 million, compared with an expense of ¥1,081 million for the previous fiscal period. The Company incurred no bond issuance expenses during fiscal 1997, compared with ¥446 million in such expenses during the previous period. Also significant was a 96.2% reduction in the loss on redemption of bonds, to ¥10 million, from a loss of ¥261 million in fiscal 1996.

A ¥1,012 million loss on the devaluation of marketable and investment securities was incurred because of unusual fluctuations in securities markets.

As a result, net income surged 357.4%, to ¥6,024 million. Net income per share rose to ¥173.47, from ¥39.77, while fully diluted net income per share was ¥163.58. Cash dividends applicable to the year were set at ¥30.00 per share.

FINANCIAL POSITION

At March 31, 1997, Konami's consolidated total assets stood at ¥83,533 million, up 10.8% from a year earlier.

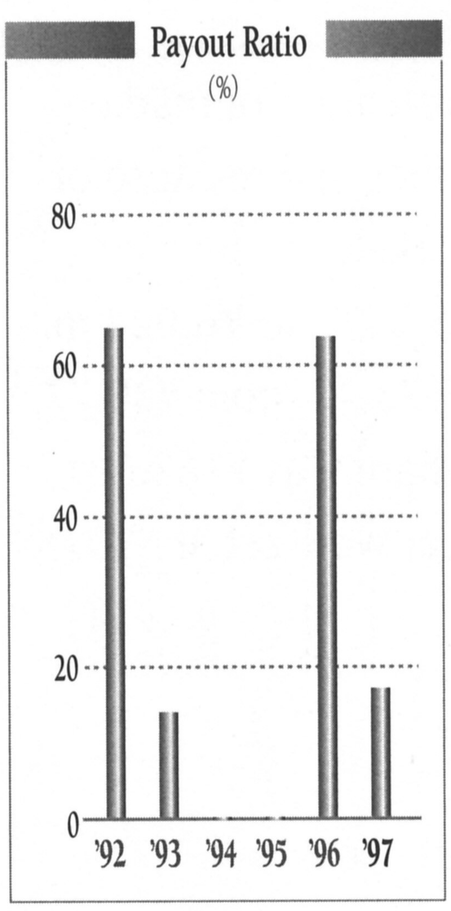
Total current assets amounted to ¥45,970 million, up 11.6%. Within this total, cash and cash equivalents dropped 42.8%, to ¥10,256 million, mainly due to the allocation of ¥1,300 million for repayment of short-term debt and ¥2,000 million for early redemption of bonds in addition to other outlays.

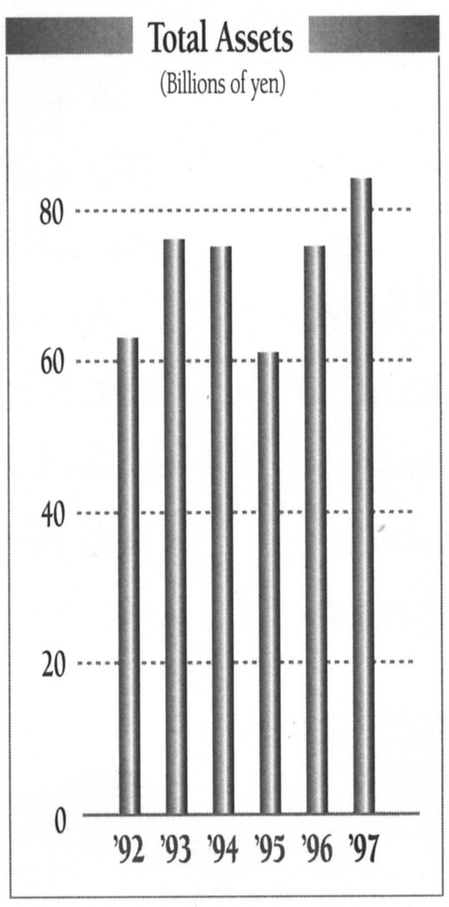
Trade notes receivable jumped 44.4%, to ¥5,683 million, and trade accounts receivable were up 12.8%, to ¥12,059 million. Inventories advanced 171.1%, to ¥11,379 million. These increases paralleled the rise in net sales.

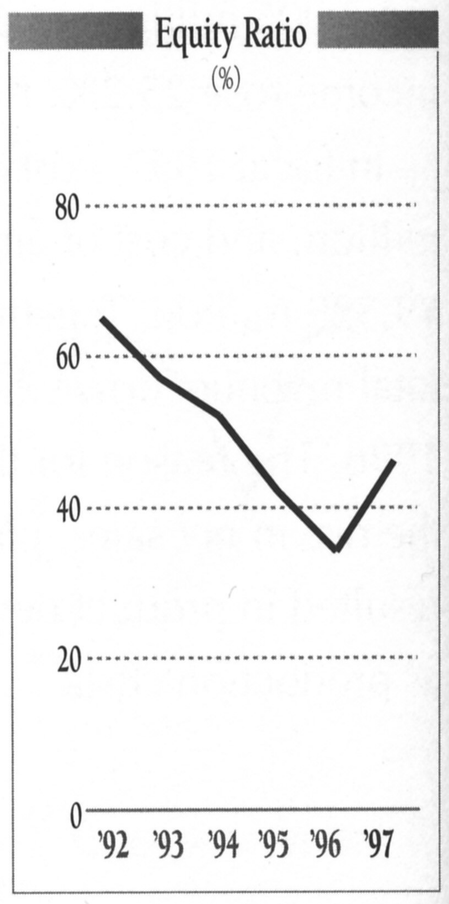
Net property and equipment grew 8.1% and amounted to ¥30,406 million at fiscal year-end. Within this total, tools, furniture and fixtures climbed 40.1%, to ¥9,216 million, stemming mainly from increased purchases of product equipment by new subsidiaries, as well as by amusement facilities. Construction in progress rose to ¥1,191 million, from ¥23 million, due to the construction of a new amusement machinery plant in Kobe.

Total investments and other assets grew 17.9%, to ¥7,154 million, due mainly to a rise in lease deposits stemming from an expansion of facilities leased by the head office and by subsidiaries.

At fiscal 1997 year-end, total current liabilities amounted to ¥30,941 million, up 30.4%. The principal reason for this increase was a 205.8% jump in the current portion of long-term debt, to ¥3,079 million. This was due to unsecured bonds, totaling ¥2,000 million, that became due within one year prior to the end of fiscal 1997. Trade accounts payable jumped 80.6%, to ¥4,688 million, stemming from increased purchases reflecting increased sales.







Total long-term liabilities fell 46.8%, to ¥13,798 million. A major reason for the decline was a 50.6% drop in convertible bonds, to ¥7,406 million, stemming from the ongoing conversion of Euroyen convertible bonds, issued in December 1995 (¥15 billion), into common stock. In addition, the Company redeemed its first unsecured bond issue, valued at ¥2,000 million, while the second unsecured issue, also valued at ¥2,000 million, came due within one year prior to the end of fiscal 1997.

Total shareholders' equity jumped 50.2%, to ¥38,645 million, due primarily to a 46.9% rise in common stock, to ¥11,893 million, and a 48.7% advance in additional paid-in capital, to ¥11,591 million. Both increases stemmed from the conversion of convertible bonds to common stock, which added ¥3,797 million to each item.

Shareholders' equity per share rose 39.6%, to ¥1,084.76.

CASH FLOWS

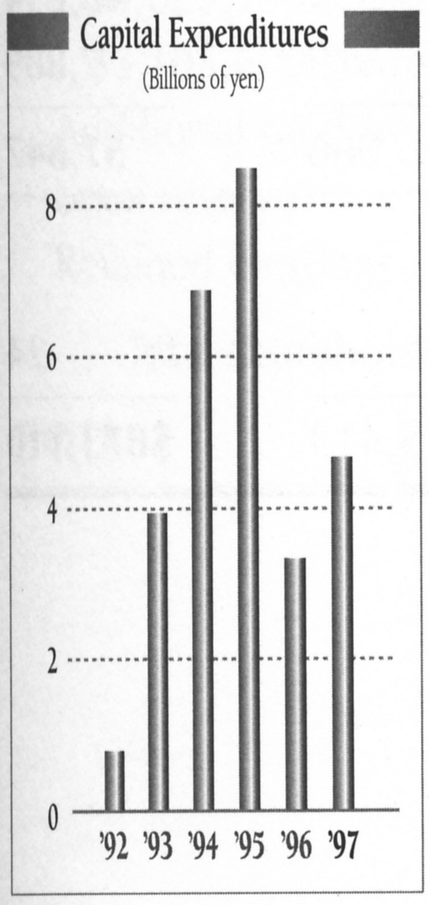
Net cash provided by operating activities grew 10.0%, to ¥3,383 million.

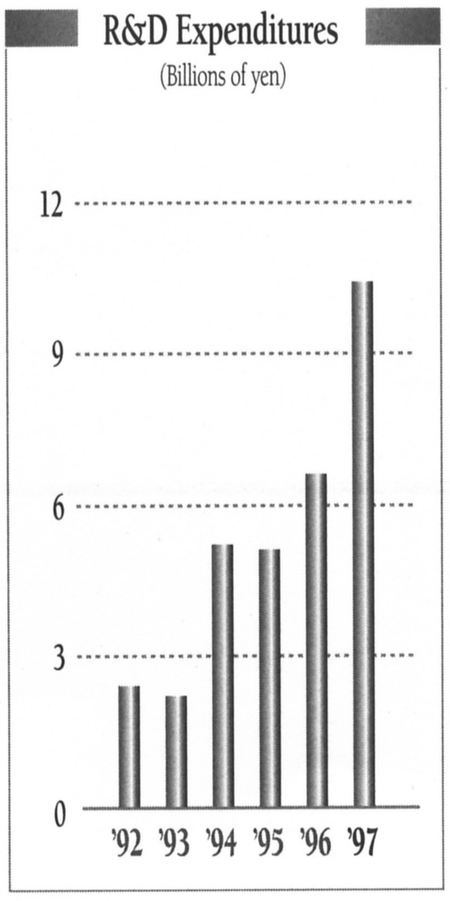
Net income surged 357.4%, to ¥6,024 million. The increase in notes and accounts receivable was ¥4,647 million lower than in the previous year, reflecting a cash decrease. The increase in inventories was ¥7,182 million greater than in fiscal 1996.

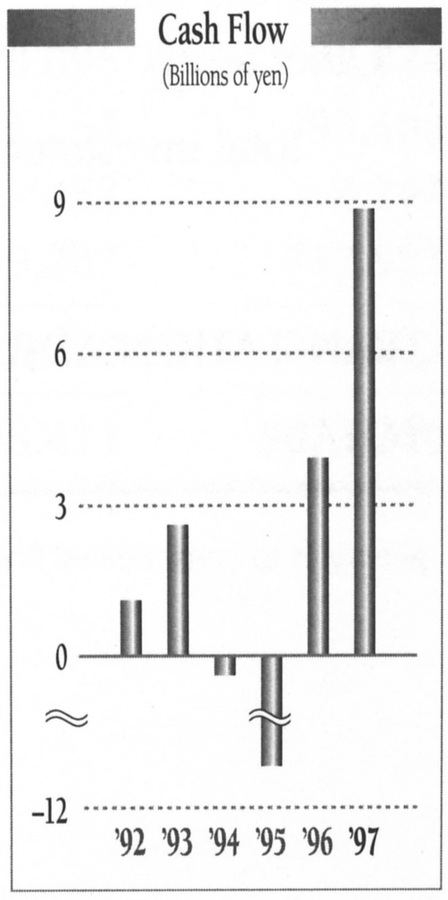
Net cash used in investing activities jumped 180.9%, to ¥7,702 million, largely owing to an increase of fixed assets at the head office and new subsidiaries.

In fiscal 1997, net cash used in financing activities was ¥3,404 million, compared with ¥8,190 million in net cash provided by financing activities in fiscal 1996.

As a result, the net decrease in cash and cash equivalents for the year was ¥7,723 million. Cash and cash equivalents at year-end totaled ¥10,256 million.







Note: Cash Flow is the sum of net income (loss) and depreciation and amortization.

CONSOLIDATED BALANCE SHEETS

Konami Co., Ltd. and Subsidiaries March 31, 1997 and 1996

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1997	1996	**1997**
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	**¥10,256**	¥17,916	**$ 82,643**
Marketable securities (Note 4)	**2,840**	3,557	**22,885**
Notes and accounts receivable:			
Trade notes	**5,683**	3,935	**45,794**
Trade accounts	**12,059**	10,687	**97,171**
Allowance for doubtful receivables	**(484)**	(575)	**(3,900)**
Inventories (Notes 3 and 5)	**11,379**	4,198	**91,692**
Prepaid expenses and other current assets	**4,237**	1,490	**34,142**
Total current assets	**45,970**	41,208	**370,427**
PROPERTY AND EQUIPMENT:			
Land	**10,856**	10,672	**87,478**
Buildings and structures	**20,456**	19,889	**164,835**
Tools, furniture and fixtures	**9,216**	6,580	**74,262**
Construction in progress	**1,191**	23	**9,597**
Total	**41,719**	37,164	**336,172**
Accumulated depreciation	**(11,313)**	(9,025)	**(91,160)**
Net property and equipment	**30,406**	28,139	**245,012**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 4)	**107**	136	**862**
Investment in an affiliated company	**25**	—	**202**
Lease deposits	**6,043**	5,351	**48,694**
Other assets	**979**	579	**7,889**
Total investments and other assets	**7,154**	6,066	**57,647**
TRANSLATION ADJUSTMENTS	**3**	—	**24**
TOTAL	**¥83,533**	¥75,413	**$673,110**

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1997	1996	**1997**
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term bank loans (Note 6)	**¥ 9,090**	¥ 9,049	**$ 73,247**
Current portion of long-term debt (Note 6)	**3,079**	1,007	**24,811**
Notes and accounts payable:			
Trade notes	**7,879**	7,320	**63,489**
Trade accounts	**4,688**	2,596	**37,776**
Other	**2,863**	1,447	**23,070**
Income taxes payable	**433**	249	**3,489**
Accrued expenses and other current liabilities	**2,909**	2,060	**23,441**
Total current liabilities	**30,941**	23,728	**249,323**
LONG-TERM LIABILITIES:			
Long-term debt (Note 6)	**12,879**	25,312	**103,779**
Liability for retirement benefits (Note 7)	**763**	574	**6,148**
Other long-term liabilities (Note 6)	**156**	64	**1,257**
Total long-term liabilities	**13,798**	25,950	**111,184**
TRANSLATION ADJUSTMENTS	**—**	3	**—**
MINORITY INTEREST	**149**	2	**1,201**
SHAREHOLDERS' EQUITY (Notes 6, 8 and 14):			
Common stock, ¥50 par value—authorized, 130,000,000 shares; issued and outstanding, 35,625,135 shares in 1997 and 33,105,600 shares in 1996	**11,893**	8,096	**95,834**
Additional paid-in capital	**11,591**	7,794	**93,400**
Legal reserve	**527**	453	**4,247**
Retained earnings	**14,634**	9,387	**117,921**
Total shareholders' equity	**38,645**	25,730	**311,402**
TOTAL	**¥83,533**	¥75,413	**$673,110**

CONSOLIDATED STATEMENTS OF OPERATIONS

Konami Co., Ltd. and Subsidiaries Years Ended March 31, 1997, 1996 and 1995

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	1997	1996	1995	**1997**
REVENUE:				
Net sales	**¥60,195**	¥47,112	¥ 35,417	**$485,053**
Revenue from amusement operations	**9,241**	9,379	4,505	**74,464**
Total revenue	**69,436**	56,491	39,922	**559,517**
COSTS AND EXPENSES:				
Cost of sales (Notes 3 and 9)	**37,760**	29,182	29,394	**304,271**
Cost of amusement operations	**9,529**	10,434	5,699	**76,785**
Selling, general and administrative expenses (Notes 3 and 9)	**15,550**	13,530	14,911	**125,302**
Total costs and expenses	**62,839**	53,146	50,004	**506,358**
Operating income (loss)	**6,597**	3,345	(10,082)	**53,159**
OTHER INCOME (EXPENSES):				
Interest and dividend income	**171**	189	311	**1,378**
Interest expense	**(533)**	(959)	(1,248)	**(4,295)**
Foreign exchange gain (loss)—net	**909**	367	(365)	**7,325**
Devaluation of marketable and investment securities	**(1,012)**	(135)	(498)	**(8,155)**
Other—net (Note 11)	**346**	(1,081)	(1,829)	**2,788**
Other expenses—net	**(119)**	(1,619)	(3,629)	**(959)**
INCOME (LOSS) BEFORE INCOME TAXES, MINORITY INTEREST, WRITE-OFF OF EXCESS OF COST OVER NET ASSETS OF SUBSIDIARIES ACQUIRED AND TRANSLATION ADJUSTMENTS (Notes 2.l and 3)	**6,478**	1,726	(13,711)	**52,200**
INCOME TAXES (Note 12)	**450**	269	216	**3,627**
MINORITY INTEREST	**—**	8	2	**—**
WRITE-OFF OF EXCESS OF COST OVER NET ASSETS OF SUBSIDIARIES ACQUIRED	**4**	—	—	**32**
TRANSLATION ADJUSTMENTS	**—**	(148)	753	**—**
NET INCOME (LOSS)	**¥ 6,024**	¥ 1,317	¥(13,172)	**$ 48,541**

	Yen			U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.o):				
Net income (loss)	**¥173.47**	¥39.77	¥(397.88)	**$1.40**
Fully diluted net income	**163.58**	39.03	—	**1.32**
Cash dividends applicable to the year	**30.00**	17.00	17.00	**0.24**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Konami Co., Ltd. and Subsidiaries Years Ended March 31, 1997, 1996 and 1995

	Number of Shares of Common Stock Issued and Outstanding	Millions of Yen			
		Common Stock	Additional Paid-in Capital	Legal Reserve	Retained Earnings
BALANCE, APRIL 1, 1994	33,105,600	¥ 8,096	¥ 7,794	¥340	¥23,205
Net loss		—	—	—	(13,172)
Cash dividends, ¥17 per share		—	—	—	(563)
Transfer to legal reserve		—	—	57	(57)
Bonuses to corporate auditors		—	—	—	(4)
Decrease by consolidating previously unconsolidated subsidiaries		—	—	—	(67)
Translation adjustments		—	—	—	198
BALANCE, MARCH 31, 1995	33,105,600	8,096	7,794	397	9,540
Net income		—	—	—	1,317
Cash dividends, ¥17 per share		—	—	—	(563)
Transfer to legal reserve		—	—	56	(56)
Translation adjustments		—	—	—	(851)
BALANCE, MARCH 31, 1996	33,105,600	8,096	7,794	453	9,387
Net income		—	—	—	**6,024**
Cash dividends, ¥19.5 per share		—	—	—	**(668)**
Transfer to legal reserve		—	—	**74**	**(74)**
Bonuses to directors		—	—	—	**(71)**
Increase by revaluation of real estate owned by a U.K. subsidiary		—	—	—	**36**
Conversion of convertible bonds	**2,519,535**	**3,797**	**3,797**	—	—
BALANCE, MARCH 31, 1997	**35,625,135**	**¥11,893**	**¥11,591**	**¥527**	**¥14,634**

	Thousands of U.S. Dollars (Note 1)			
	Common Stock	Additional Paid-in Capital	Legal Reserve	Retained Earnings
BALANCE, MARCH 31, 1996	$65,238	$62,804	$3,651	$75,641
Net income	—	—	—	**48,541**
Cash dividends, $0.16 per share	—	—	—	**(5,383)**
Transfer to legal reserve	—	—	**596**	**(596)**
Bonuses to directors	—	—	—	**(572)**
Increase by revaluation of real estate owned by a U.K. subsidiary	—	—	—	**290**
Conversion of convertible bonds	**30,596**	**30,596**	—	—
BALANCE, MARCH 31, 1997	**$95,834**	**$93,400**	**$4,247**	**$117,921**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Konami Co., Ltd. and Subsidiaries Years Ended March 31, 1997, 1996 and 1995

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	1997	1996	1995	**1997**
OPERATING ACTIVITIES:				
Net income (loss)	**¥ 6,024**	¥ 1,317	¥(13,172)	**$ 48,541**
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	**2,822**	2,599	2,203	**22,740**
Devaluation of marketable and investment securities	**1,012**	135	498	**8,155**
Exchange loss	**—**	—	24	**—**
Net loss on disposal or sales of property and equipment	**25**	80	102	**201**
Loss on redemption of bonds	**10**	261	—	**81**
Net loss (gain) on sales of marketable and investment securities	**(13)**	48	(310)	**(105)**
Loss on non-refundable lease deposits	**—**	424	350	**—**
Other—net	**345**	40	(465)	**2,780**
Changes in assets and liabilities, net of effects from consolidating previously unconsolidated subsidiaries:				
Decrease (increase) in notes and accounts receivable	**(3,120)**	(7,767)	4,895	**(25,141)**
Decrease (increase) in inventories	**(7,329)**	(147)	7,587	**(59,057)**
Decrease (increase) in prepaid expenses and other current assets	**(1,148)**	(113)	69	**(9,251)**
Increase (decrease) in notes and accounts payable	**3,722**	5,953	(3,457)	**29,992**
Increase (decrease) in income taxes payable	**184**	223	(609)	**1,483**
Increase in accrued expenses and other current liabilities	**849**	22	345	**6,841**
Net cash provided by (used in) operating activities	**3,383**	3,075	(1,940)	**27,260**
INVESTING ACTIVITIES:				
Net decrease (increase) in marketable securities	**(295)**	—	23	**(2,377)**
Capital expenditures	**(4,661)**	(3,321)	(8,477)	**(37,558)**
Additions to investment in an affiliated company and investment securities	**(37)**	(62)	(2,765)	**(298)**
Increase in lease deposits	**(933)**	(314)	(2,204)	**(7,518)**
Payments for loan receivables—net	**(1,599)**	—	—	**(12,885)**
Increase in other assets	**(497)**	(52)	(212)	**(4,005)**
Proceeds from sales of property and equipment	**25**	366	15	**201**
Proceeds from sales of investment securities	**—**	20	2,161	**—**
Other—net	**295**	621	101	**2,377**
Net cash used in investing activities	**(7,702)**	(2,742)	(11,358)	**(62,063)**
FINANCING ACTIVITIES:				
Increase (decrease) in short-term bank loans, net of effects from consolidating previously unconsolidated subsidiaries	**41**	3,605	(774)	**330**
Proceeds from long-term debt	**180**	17,432	3,850	**1,451**
Proceeds from issuance of stock purchase warrants	**—**	28	—	**—**
Repayments of long-term debt	**(2,957)**	(12,315)	(505)	**(23,827)**
Cash dividends paid	**(668)**	(560)	(563)	**(5,383)**
Net cash provided by (used in) financing activities	**(3,404)**	8,190	2,008	**(27,429)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(7,723)**	8,523	(11,290)	**(62,232)**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**63**	(125)	18	**508**
CASH AND CASH EQUIVALENTS INCREASED BY CONSOLIDATING PREVIOUSLY UNCONSOLIDATED SUBSIDIARIES	**—**	—	73	**—**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**17,916**	9,518	20,717	**144,367**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥10,256**	¥17,916	¥ 9,518	**$ 82,643**
ADDITIONAL CASH FLOW INFORMATION:				
Interest paid	**¥ 504**	¥1,187	¥1,266	**$ 4,061**
Income taxes paid	**286**	63	813	**2,305**
NON-CASH FINANCING AND INVESTING ACTIVITIES:				
Assets increased by consolidating previously unconsolidated subsidiaries	**—**	—	1,399	**—**
Liabilities increased by consolidating previously unconsolidated subsidiaries	**—**	—	1,432	**—**
Convertible bonds converted into common stocks	**7,594**	—	—	**61,192**

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Konami Co., Ltd. and Subsidiaries

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law (the "Law") and its related accounting regulations and in conformity with accounting principles and practices generally accepted in Japan. Konami Co., Ltd. (the "Company") and its domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code (the "Code") and in conformity with accounting principles and practices generally accepted in Japan, and its foreign subsidiaries in conformity with those of the countries of their domicile.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in Japan in order to present them in a form which is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include certain information which is not required under accounting principles and practices generally accepted in Japan but is presented herein as additional information. The consolidated statements of cash flows are not required as part of the consolidated financial statements in Japan but are presented herein as additional information.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥124.10 to $1, the rate of exchange at March 31, 1997. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Certain reclassifications have been made in the 1996 and 1995 consolidated financial statements to conform to the classifications used in 1997.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Principles of Consolidation—The consolidated financial statements include the accounts of the Company and all of its subsidiaries (collectively the "Companies"). Konami (America) Inc., previously a consolidated subsidiary, was liquidated in September 1996. However, its statement of operations before liquidation was included in the consolidated financial statements. Five foreign subsidiaries use a fiscal year end on the last day of February and a foreign subsidiary uses a fiscal year end at December 31. A foreign subsidiary currently changed its fiscal year end from December 31 to the last day of February, which resulted in the consolidation of fourteen months of operations. Other subsidiaries use a fiscal year end at March 31, which is the same as the fiscal year of the Company.

Investment in an affiliated company (companies owned 50%) is stated at cost as it was immaterial to the accompanying consolidated financial statements.

Significant intercompany balances, transactions and unrealized profits have been eliminated in consolidation.

The difference between the cost and underlying net equity of investments in subsidiaries at acquisition is included in investments in other assets and is amortized on a straight-line basis over five years or if not significant in amount, such difference is charged to income when incurred.

b. Cash and Cash Equivalents—The Companies consider all time deposits to be cash equivalents. Time deposits have original maturities of one year or less and can be withdrawn on demand with no diminution of principal.

c. Inventories—Inventories other than merchandise and work in process are stated at cost determined by the average method.

Merchandise is stated at the lower of cost or market, cost being determined mainly by the first-in, first-out method.

Work in process consisting of hardware products which are manufactured by the Company is stated at cost determined by the average method. Hardware products which are developed by the Company and software products which are produced by the subsidiaries are stated at cost determined by the specific identification method.

d. Marketable and Investment Securities—Listed marketable securities included in marketable and investment securities are stated at the lower of cost or market. Other securities are stated at cost. Cost is determined by the average method.

e. Property and Equipment—Property and equipment are stated at cost. Depreciation by the Company and domestic subsidiaries is computed by the declining-balance method, while the straight-line method is applied to the property and equipment of foreign subsidiaries, at rates based on the estimated useful lives of the assets.

f. Retirement Benefits—The Company and domestic subsidiaries have a non-contributory funded severance and retirement plan covering most of the employees of the Company and such subsidiaries.

The policy for the plan is to fund and to charge its costs to income as accrued on the basis of an accepted actuarial method. Prior service costs are amortized over approximately six years.

The liability for retirement benefits represents for directors and corporate auditors of the Company and is provided for such amounts as would be required if all such individuals retired at each balance sheet date.

g. Bond Issuance Expenses and Discounts—Bond issuance expenses and discounts are charged to income as incurred.

h. Bonds with Warrants—The proceeds of bonds with warrants are allocated between a bond portion and a warrant portion. The amounts ascribed to warrants are stated as long-term liabilities.

i. Research and Development Expenses—Research and development expenses other than the development cost of hardware products developed by the Company and software products produced by subsidiaries as described in Note 3 are charged to income as incurred.

j. Leases—All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements. These standards are being applied on a step-by-step basis beginning with fiscal years starting on or after April 1, 1996, with full implementation expected for fiscal years starting on or after April 1, 1998.

k. Foreign Currency Amounts—Effective April 1, 1996, the Company and domestic subsidiaries adopted the new Japanese accounting standards regarding foreign currency translation. Retroactive restatement is not required.

Under both old and new standards, balances denominated in foreign currencies, except for those hedged by forward exchange contracts, are translated into Japanese yen at the current exchange rates in effect at each balance sheet date for monetary current assets and liabilities, and at historical rates for non-current assets and liabilities. Foreign currency balances hedged by forward exchange contracts are translated into Japanese yen at the contracted rates. However, under the new standards, adjustments are made for substantial exchange losses incurred for non-current assets and liabilities. Revenue and expense items denominated in foreign currencies are translated at the average rates. Exchange and translation gains or losses are credited or charged to income as incurred.

l. Foreign Currency Financial Statements—Prior to April 1, 1996, the accounts of foreign subsidiaries are translated into Japanese yen at the rates in effect at each balance sheet date for monetary current assets and liabilities, retained earnings and net income (loss), and at historical rates for all other items.

Effective April 1, 1996, the accounting regulations concerning the translation of foreign currency financial statements have been changed. For the year ended March 31, 1997, the balance sheet accounts and revenue and expense accounts of the foreign subsidiaries are translated into yen at the current exchange rate as of the balance sheet date except for shareholders' equity which is translated at the historical rates.

Differences arising from such translation are shown as translation adjustments in the accompanying consolidated financial statements.

Under the Japanese accounting regulations, adoption of the new translation method of the foreign currency financial statements is not treated as an accounting change. In applying the new regulation to the prior fiscal year, income before income taxes, minority interest, write-off of excess of cost over net assets of subsidiaries acquired and translation adjustments for the year ended March 31, 1996, would have been decreased by ¥138 million ($1,112 thousand). Retroactive restatements on or before fiscal years ended March 31, 1996 were not required under such new regulation.

m. Income Taxes—Income taxes are provided for amounts currently payable for each fiscal year. Deferred income taxes arising from temporary differences between financial and tax reporting purposes are recorded in the accounts of certain foreign subsidiaries only.

n. Cash Dividends—Cash dividends charged to retained earnings are those actually paid during the year and represent year-end dividends for the preceding year and interim dividends for the current year.

o. Per Share Information—The computation of net income or net loss per share of common stock is based on the weighted average number of shares of common stock outstanding during each year. The weighted average number of shares of common stock used in the computation was 34,727,906 shares, 33,105,600 shares and 33,105,600 shares for the years ended March 31, 1997, 1996 and 1995, respectively.

Fully diluted net income per share of common stock assumes full conversion of the outstanding convertible bonds at the beginning of the year or at the date of issuance with an applicable adjustment for related interest expense (net of tax), and full exercise of outstanding warrants at the end of the year.

Cash dividends per share of common stock presented in the accompanying consolidated statements of operations are dividends applicable to the respective years including year-end dividends to be declared.

3. ACCOUNTING CHANGE

Prior to April 1, 1995, the development cost of software products produced by the Company was charged to selling, general and administrative expenses as incurred. Effective April 1, 1995, however, most of such developments have been subcontracted to newly established subsidiaries in that year and such subsidiaries record development costs as work in process until completion of products and charge such costs to cost of sales when sold. The adoption of the new method of accounting was made in order to reflect income and expenses (cost) more appropriately due to a longer development period and higher development cost per product than those in prior years. The effect of this change was to increase inventories, operating income and income before income taxes, minority interest, write-off of excess of cost over net assets of subsidiaries acquired and translation adjustments for the year ended March 31, 1996, by ¥303 million.

Prior to April 1, 1996, the development cost of hardware products developed by the Company was charged to selling, general and administrative expenses as incurred. Effective April 1, 1996, however, the Company recorded such development costs as work in process until completion of such products and charges such costs to cost of sales when sold. The adoption of the new method of accounting was made in order to reflect income and expenses (cost) more appropriately due to a longer development period and higher development cost per product than those in prior years. The effect of this accounting change was to increase inventories, operating income and income before income taxes, minority interest, write-off of excess of cost over net assets of subsidiaries acquired and translation adjustments for the year ended March 31, 1997, by ¥2,250 million ($18,131 thousand).

The issue prices of the unsecured 6.9% bonds referred to above were 99.15% and 99.25% of the face amounts, respectively.

The unsecured 6.9% bonds due in February 1998 were fully redeemed in August 1996 at a loss of ¥10 million ($81 thousand).

The unsecured 3.2% bonds with detachable stock purchase warrants were issued on March 13, 1996, and their proceeds were allocated between a bond portion and a warrant portion. The bonds mature on March 13, 2000. The warrants are exercisable from May 1, 1996 to March 10, 2000. The warrants outstanding at March 31, 1997 were exercisable to purchase up to 132 thousand shares of common stock of the Company at an exercise price of ¥3,025 per share. The amount allocated to warrants included in other long-term liabilities was ¥28 million ($226 thousand) at March 31, 1997.

The unsecured 0.75% convertible bonds mature on March 31, 2000. The convertible bonds are convertible into common stock of the Company from January 4, 1996 to March 24, 2000. The convertible bonds outstanding at March 31, 1997 were convertible into 2,457 thousand shares of the Company's common stock at a conversion price of ¥3,014 per share.

The conversion price of the convertible bonds and the exercise price of the warrants are subject to adjustments in certain circumstances.

The unsecured 6.9% bond agreements contain restrictions with respect to the Company's payments of cash dividends. The amount of retained earnings free from the restriction of the Company at March 31, 1997 was ¥18,961 million ($152,788 thousand).

7. SEVERANCE AND RETIREMENT PLAN

Under the non-contributory funded severance and retirement plan, most of the employees of the Company and all domestic subsidiaries terminating their employment are entitled, in most circumstances, to lump-sum severance payments determined by reference to the rate of pay at the time of termination, years of service and certain other factors, although periodic pension payments are available for such employees with service with the Company and all domestic subsidiaries of 20 years or more.

At March 31, 1997, the most recent date of available information, the fund assets of the plan amounted to ¥880 million ($7,091 thousand).

Charges to income for the plan were ¥142 million ($1,144 thousand), ¥141 million and ¥96 million for the years ended March 31, 1997, 1996 and 1995, respectively.

The provisions for retirement benefits for directors and corporate auditors of the Company were ¥216 million ($1,741 thousand), ¥60 million and ¥72 million for the years ended March 31, 1997, 1996 and 1995, respectively.

8. SHAREHOLDERS' EQUITY

The Code requires at least 50% of the issue price of new shares, with a minimum of the par value thereof, to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital are credited to additional paid-in capital.

The Code also requires companies to appropriate from retained earnings to legal reserve an amount equal to at least 10% of all cash payments which are made as an appropriation of retained earnings until such reserve equals 25% of stated capital. This reserve is not available for dividends but may be used to reduce a deficit by resolution of the shareholders.

The Company may transfer portions of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Company may also transfer portions of unappropriated retained earnings, available for dividends, to stated capital by resolution of the shareholders.

Under the Code, the Company may issue new shares of common stock to existing shareholders without consideration as a stock split pursuant to resolution of the Board of Directors. The Company may make such a stock split to the extent that the aggregate par value of the shares outstanding after the stock split does not exceed the stated capital. However, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split shall not be less than ¥50.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

Under the Code, the amount available for dividends is based on retained earnings as recorded on the books of the Company. At March 31, 1997, retained earnings recorded on the books of the Company included ¥12,733 million ($102,603 thousand) designated as general reserves but available for future dividends, subject to approval of the shareholders and legal reserve requirements. (See Note 6 with respect to restrictions under long-term debt agreements.)

9. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses for the products incurred were ¥10,378 million ($83,626 thousand), ¥6,644 million and ¥5,064 million for the years ended March 31, 1997, 1996 and 1995, respectively.

10. LEASES

The Companies lease certain computer equipment and other assets.

Total finance lease payments under finance lease arrangements that do not transfer ownership of the leased property to the Companies were ¥201 million ($1,620 thousand) for the year ended March 31, 1997.

11. OTHER INCOME (EXPENSES)—OTHER—NET

Other income (expenses)—other—net for the years ended March 31, 1997, 1996 and 1995 consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars
	1997	1996	1995	**1997**
Bond issuance expenses	**—**	¥ (446)	—	**—**
Loss on redemption of bonds	**¥(10)**	(261)	—	**$ (81)**
Gain (loss) on sales of marketable securities	**13**	(48)	¥ 23	**105**
Gain on sales of investment securities	**—**	—	287	**—**
Net loss on disposal or sales of property and equipment	**(25)**	(80)	(102)	**(201)**
Loss on non-refundable lease deposits	**—**	(424)	(350)	**—**
Loss on disposal of inventories	**(148)**	—	(1,115)	**(1,193)**
Loss on damage from earthquake disaster	**—**	—	(710)	**—**
Income from leased properties	**280**	70	80	**2,256**
Other income—net	**236**	108	58	**1,902**
Total	**¥346**	¥(1,081)	¥(1,829)	**$2,788**

12. INCOME TAXES

The Company and its domestic subsidiaries are subject to several taxes on income which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 51.4% for the years ended March 31, 1997, 1996 and 1995. The effective tax rates in the accompanying consolidated statements of operations differ from the normal effective statutory rate principally due to non-recognition of temporary differences between tax and financial reporting purposes and the effect of net operating losses and net operating loss carryforwards of the Company and certain subsidiaries for income tax purposes.

The Company and certain domestic subsidiaries have net operating loss carryforwards of approximately ¥7,466 million ($60,161 thousand) at March 31, 1997. Under the current Japanese tax regulations, net operating losses can be carried forward for five future years and deducted from future taxable income, if any. These net operating loss carryforwards will expire, if not utilized, for such periods.

Certain foreign subsidiaries have net operating loss carryforwards of approximately ¥12,885 million ($103,828 thousand) that will expire in 2009, if not utilized, and approximately ¥1,071 million ($8,630 thousand) which do not expire and can be deducted from future taxable income, if any.

13. SEGMENT INFORMATION

Segment information about operations in different industry, foreign operations and overseas sales of the Companies for the years ended March 31, 1997 and 1996 is summarized as follows:

a. Operations in Different Industry

(1) Sales and operating income

	Millions of Yen									
Year Ended March 31, 1997	Consumer Products	Amusement Machines	Gaming Machines	Pachinko Systems	Creative Products	Amusement Operations	Other	Total	Eliminations and Unallocated Items	Consolidated
Net sales:										
To customers	**¥26,674**	**¥9,693**	**¥8,512**	**¥6,871**	**¥5,440**	**¥9,241**	**¥3,005**	**¥69,436**	**—**	**¥69,436**
Intersegment	**69**	**—**	**—**	**—**	**8**	**—**	**1,359**	**1,436**	**¥(1,436)**	**—**
Total	**26,743**	**9,693**	**8,512**	**6,871**	**5,448**	**9,241**	**4,364**	**70,872**	**(1,436)**	**69,436**
Operating expenses	**21,096**	**8,495**	**7,286**	**4,998**	**4,278**	**9,899**	**4,051**	**60,103**	**2,736**	**62,839**
Operating income (loss)	**¥ 5,647**	**¥1,198**	**¥1,226**	**¥1,873**	**¥1,170**	**¥ (658)**	**¥ 313**	**¥10,769**	**¥(4,172)**	**¥ 6,597**

(2) Assets, depreciation and capital expenditures

Year Ended March 31, 1997	Consumer Products	Amusement Machines	Gaming Machines	Pachinko Systems	Creative Products	Amusement Operations	Other	Total	Eliminations and Unallocated Items	Consolidated
	Millions of Yen									
Assets	**¥16,840**	**¥12,082**	**¥11,116**	**¥5,119**	**¥3,050**	**¥7,707**	**¥10,056**	**¥65,970**	**¥17,563**	**¥83,533**
Depreciation	**551**	**441**	**423**	**73**	**3**	**743**	**106**	**2,340**	**388**	**2,728**
Capital expenditures	**1,557**	**1,938**	**265**	**77**	**24**	**516**	**231**	**4,608**	**430**	**5,038**

(1) Sales and operating income

Year Ended March 31, 1997	Consumer Products	Amusement Machines	Gaming Machines	Pachinko Systems	Creative Products	Amusement Operations	Other	Total	Eliminations and Unallocated Items	Consolidated
	Thousands of U.S. Dollars									
Net sales:										
To customers	**$214,940**	**$78,106**	**$68,590**	**$55,367**	**$43,836**	**$74,464**	**$24,214**	**$559,517**	**—**	**$559,517**
Intersegment	**556**	**—**	**—**	**—**	**64**	**—**	**10,951**	**11,571**	**$(11,571)**	**—**
Total	**215,496**	**78,106**	**68,590**	**55,367**	**43,900**	**74,464**	**35,165**	**571,088**	**(11,571)**	**559,517**
Operating expenses	**169,992**	**68,453**	**58,711**	**40,274**	**34,472**	**79,766**	**32,643**	**484,311**	**22,047**	**506,358**
Operating income (loss)	**$ 45,504**	**$ 9,653**	**$ 9,879**	**$15,093**	**$ 9,428**	**$ (5,302)**	**$ 2,522**	**$ 86,777**	**$(33,618)**	**$ 53,159**

(2) Assets, depreciation and capital expenditures

Year Ended March 31, 1997	Consumer Products	Amusement Machines	Gaming Machines	Pachinko Systems	Creative Products	Amusement Operations	Other	Total	Eliminations and Unallocated Items	Consolidated
	Thousands of U.S. Dollars									
Assets	**$135,697**	**$97,357**	**$89,573**	**$41,249**	**$24,577**	**$62,103**	**$81,031**	**$531,587**	**$141,523**	**$673,110**
Depreciation	**4,440**	**3,554**	**3,409**	**588**	**24**	**5,987**	**854**	**18,856**	**3,127**	**21,983**
Capital expenditures	**12,546**	**15,617**	**2,135**	**621**	**193**	**4,158**	**1,861**	**37,131**	**3,465**	**40,596**

(1) Sales and operating income

Year Ended March 31, 1996	Consumer Products	Amusement Machines	Gaming Machines	Pachinko Systems	Creative Products	Amusement Operations	Other	Total	Eliminations and Unallocated Items	Consolidated
	Millions of Yen									
Net sales:										
To customers	¥22,689	¥4,281	¥7,353	¥7,586	¥1,393	¥ 9,380	¥3,809	¥56,491	—	¥56,491
Intersegment	7	—	—	—	—	—	410	417	¥ (417)	—
Total	22,696	4,281	7,353	7,586	1,393	9,380	4,219	56,908	(417)	56,491
Operating expenses	17,895	4,140	6,860	5,679	818	10,727	3,969	50,088	3,058	53,146
Operating income (loss)	¥ 4,801	¥ 141	¥ 493	¥1,907	¥ 575	¥ (1,347)	¥ 250	¥ 6,820	¥(3,475)	¥ 3,345

(2) Assets, depreciation and capital expenditures

Year Ended March 31, 1996	Consumer Products	Amusement Machines	Gaming Machines	Pachinko Systems	Creative Products	Amusement Operations	Other	Total	Eliminations and Unallocated Items	Consolidated
	Millions of Yen									
Assets	¥12,095	¥7,654	¥9,621	¥4,598	¥507	¥9,578	¥6,654	¥50,707	¥24,706	¥75,413
Depreciation	307	352	290	106	6	898	38	1,997	498	2,495
Capital expenditures	849	238	201	36	7	647	355	2,333	276	2,609

Notes:

1. The Companies are primarily engaged in the manufacture and sale of products in seven major segments grouped on the basis of similarities in the type, nature and market for the products. The seven segments, namely, consumer products, amusement machines, gaming machines, pachinko systems, creative products, amusement operations and other, mainly consist of the following products:

Consumer products:	Software for TV game sets
Amusement machines:	Coin-operated game machines for amusement operations
Gaming machines:	Medal game machines for amusement operations
Pachinko systems:	Software with LCD units for pachinko game machines
Creative products:	Music CDs, jigsaw puzzles, fancy goods and game prizes
Amusement operations:	Operations of amusement center
Other:	Parts sales, management of real estate, etc.

2. Unallocated operating expenses mainly consisting of the administrative expenses of the Company amounted to ¥4,102 million ($33,054 thousand) and ¥3,065 million for the years ended March 31, 1997 and 1996, respectively.
3. Unallocated assets mainly consisting of cash and cash equivalents, marketable securities, investment securities and administrative assets of the Company amounted to ¥18,124 million ($146,044 thousand) and ¥26,193 million as of March 31, 1997 and 1996, respectively.
4. Consolidated operating expenses are equal to the total of cost of sales, cost of amusement operations and selling, general and administrative expenses shown in the accompanying consolidated statements of operations.
5. As described in Note 2.l, pursuant to the new accounting regulation effective April 1, 1996, operating income of consumer products and amusement machines for the year ended March 31, 1996 would have been decreased by ¥76 million ($612 thousand) and ¥51 million ($411 thousand), respectively.

b. Foreign Operations

The foreign operations of the Companies for the years ended March 31, 1997 and 1996 are summarized as follows:

	Millions of Yen				
Year Ended March 31, 1997	Japan	Outside Japan	Total	Eliminations and Unallocated Items	Consolidated
Net sales:					
To customers	**¥56,215**	**¥13,221**	**¥69,436**	**—**	**¥69,436**
Intersegment	**8,329**	**631**	**8,960**	**¥ (8,960)**	**—**
Total	**64,544**	**13,852**	**78,396**	**(8,960)**	**69,436**
Operating expenses	**53,313**	**13,483**	**66,796**	**(3,957)**	**62,839**
Operating income	**¥11,231**	**¥ 369**	**¥11,600**	**¥ (5,003)**	**¥ 6,597**
Assets	**¥62,140**	**¥ 9,557**	**¥71,697**	**¥11,836**	**¥83,533**

	Thousands of U.S. Dollars				
Year Ended March 31, 1997	Japan	Outside Japan	Total	Eliminations and Unallocated Items	Consolidated
Net sales:					
To customers	**$452,982**	**$106,535**	**$559,517**	**—**	**$559,517**
Intersegment	**67,115**	**5,085**	**72,200**	**$(72,200)**	**—**
Total	**520,097**	**111,620**	**631,717**	**(72,200)**	**559,517**
Operating expenses	**429,597**	**108,646**	**538,243**	**(31,885)**	**506,358**
Operating income	**$ 90,500**	**$ 2,974**	**$ 93,474**	**$(40,315)**	**$ 53,159**
Assets	**$500,725**	**$ 77,010**	**$577,735**	**$ 95,375**	**$673,110**

	Millions of Yen				
Year Ended March 31, 1996	Japan	Outside Japan	Total	Eliminations and Unallocated Items	Consolidated
Net sales:					
To customers	¥49,862	¥6,629	¥56,491	—	¥56,491
Intersegment	3,613	48	3,661	¥ (3,661)	—
Total	53,475	6,677	60,152	(3,661)	56,491
Operating expenses	46,680	6,871	53,551	(405)	53,146
Operating income (loss)	¥ 6,795	¥ (194)	¥ 6,601	¥ (3,256)	¥ 3,345
Assets	¥48,672	¥7,264	¥55,936	¥19,477	¥75,413

Note: As described in Note 2.l, pursuant to the new accounting regulation effective April 1, 1996, operating loss of outside Japan for the year ended March 31, 1996 would have been increased by ¥127 million ($1,023 thousand).

c. Overseas Sales

The overseas sales of the Companies for the years ended March 31, 1997 and 1996 are summarized as follows:

	Millions of Yen		
	Overseas Sales (A)	Consolidated Sales (B)	(A)/(B)
Year ended March 31, 1997	**¥15,027**	**¥69,436**	**21.6%**

	Thousands of U.S. Dollars		
	Overseas Sales (A)	Consolidated Sales (B)	(A)/(B)
Year ended March 31, 1997	**$121,088**	**$559,517**	**21.6%**

	Millions of Yen		
	Overseas Sales (A)	Consolidated Sales (B)	(A)/(B)
Year ended March 31, 1996	¥7,642	¥56,491	13.5%

d. Effect of the Change in the Accounting for the Development Costs of the Hardware and Software Products

The effect of the change in the accounting for the development cost of the hardware products described in Note 3 was to increase operating income of amusement machines, gaming machines and pachinko systems in a. "Operations in Different Industry," and of Japan in b. "Foreign Operations," for the year ended March 31, 1997, by ¥993 million ($8,002 thousand), ¥735 million ($5,923 thousand), ¥522 million ($4,206 thousand) and ¥2,250 million ($18,131 thousand), respectively, from such segments in the prior year.

The effect of the change in the accounting for the development cost of the software products described in Note 3 was to increase operating income of amusement machines and consumer products in a. "Operations in Different Industry," and of Japan in b. "Foreign Operations," for the year ended March 31, 1996, by ¥52 million, ¥251 million and ¥303 million, respectively, from such segments in the prior year.

Effective for the year ended March 31, 1996, certain disclosure requirements and the format of segment information under the Law have been amended those in 1995 as indicated above, and do not require retroactive adjustment. The segment information for the year ended March 31, 1995 under the previous regulations is as follows:

a. Operations in Different Industry

	Millions of Yen							
Year Ended March 31, 1995	Amusement Machines	Consumer Products	Pachinko Systems	Amusement Operations	Other	Total	Eliminations	Consolidated
Net sales:								
To customers	¥ 6,776	¥17,275	¥5,818	¥ 4,505	¥5,548	¥39,922	¥—	¥39,922
Intersegment	—	—	—	—	—	—	—	—
Total	6,776	17,275	5,818	4,505	5,548	39,922	—	39,922
Operating expenses	8,106	21,989	4,987	5,771	5,418	46,271	—	46,271
Operating income (loss) before unallocated operating expenses	¥(1,330)	¥ (4,714)	¥ 831	¥(1,266)	¥ 130	¥ (6,349)	¥—	(6,349)
Unallocated operating expenses								3,733
Operating loss								¥10,082

Notes:
1. Unallocated operating expenses mainly consist of the administration expenses of the Company.
2. The total of operating expenses and unallocated operating expenses is equal to the total of cost of sales, cost of amusement operations and selling, general and administrative expenses shown in the accompanying consolidated statements of operations.

b. Foreign Operations

The foreign operations of the Companies for the year ended March 31, 1995 are summarized as follows:

	Millions of Yen				
Year Ended March 31, 1995	Japan	Outside Japan	Total	Eliminations	Consolidated
Net sales:					
To customers	¥29,955	¥ 9,967	¥39,922	—	¥ 39,922
Intersegment	4,556	15	4,571	¥(4,571)	—
Total	34,511	9,982	44,493	(4,571)	39,922
Operating expenses	34,080	18,758	52,838	(2,834)	50,004
Operating income (loss)	¥ 431	¥ (8,776)	¥ (8,345)	¥(1,737)	¥(10,082)

c. Overseas Sales

The overseas sales of the Companies for the year ended March 31, 1995 are summarized as follows:

	Millions of Yen		
	Overseas Sales (A)	Consolidated Sales (B)	(A)/(B)
Year ended March 31, 1995	¥10,224	¥39,922	25.6%

14. SUBSEQUENT EVENT

a. At the general shareholders meeting held on June 27, 1997, the Company's shareholders approved payment of a cash dividend of ¥19 ($0.15) per share or a total of ¥677 million ($5,455 thousand) to shareholders of record on March 31, 1997, the transfer from retained earnings to legal reserve of ¥86 million ($693 thousand) and bonuses to directors of ¥180 million ($1,450 thousand).

b. At such meeting, the Company's shareholders also approved the stock option scheme for the Company's directors and employees and the treasury stock purchase for retirement and related reduction of retained earnings, pursuant to the Code amended effective June 1, 1997.

(1) Stock option scheme

The scheme is to transfer the Company's common stock being repurchased to the Company's directors and employees under the conditions of the resolution of the Company's Board of Directors being subsequently held and the agreement between the Company and applicable individuals.

The option is exercisable to purchase up to 110 thousand shares of the Company's common stocks or ¥660 million ($5,318 thousand) in the period from April 1, 1998 to March 31, 2001.

(2) Treasury stock purchase for retirement and related reduction of retained earnings

The Company will resolve its detail conditions at the subsequent Board of Directors subject to the maximum number of common stocks by 3,562,513 shares.

15. NON-CONSOLIDATED FINANCIAL STATEMENTS OF THE COMPANY

Presented below are the non-consolidated balance sheets of the Company as of March 31, 1997 and 1996 and related non-consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 1997.

NON-CONSOLIDATED BALANCE SHEETS

Konami Co., Ltd. March 31, 1997 and 1996

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1997	1996	**1997**
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	**¥ 5,247**	¥12,980	**$ 42,280**
Marketable securities	**2,741**	3,557	**22,087**
Notes and accounts receivable:			
Trade notes	**4,835**	3,847	**38,961**
Trade accounts	**8,902**	7,690	**71,732**
Subsidiaries and an affiliated company	**7,310**	4,085	**58,904**
Allowance for doubtful receivables	**(164)**	(125)	**(1,322)**
Inventories	**5,186**	2,045	**41,789**
Advance payment to subsidiaries	**1,516**	77	**12,216**
Short-term loans to a subsidiary	**1,050**	—	**8,461**
Current portion of long-term loans to a subsidiary	**186**	—	**1,499**
Prepaid expenses and other current assets	**854**	409	**6,882**
Total current assets	**37,663**	34,565	**303,489**
PROPERTY AND EQUIPMENT:			
Land	**8,085**	7,950	**65,149**
Buildings and structures	**14,302**	14,094	**115,246**
Tools, furniture and fixtures	**4,253**	3,219	**34,271**
Construction in progress	**1,129**	—	**9,097**
Total	**27,769**	25,263	**223,763**
Accumulated depreciation	**(6,485)**	(5,048)	**(52,256)**
Net property and equipment	**21,284**	20,215	**171,507**
INVESTMENTS AND OTHER ASSETS:			
Investments in subsidiaries	**9,299**	7,097	**74,932**
Investment securities	**25**	95	**201**
Long-term loans to a subsidiary	**388**	3,612	**3,127**
Long-term receivables from a subsidiary	**—**	7,297	**—**
Lease deposits	**4,334**	3,687	**34,923**
Other assets	**872**	522	**7,027**
Allowance for doubtful receivables	**(13)**	(7,236)	**(105)**
Total investments and other assets	**14,905**	15,074	**120,105**
TOTAL	**¥73,852**	¥69,854	**$595,101**

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	1997	1996	**1997**
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term bank loans	**¥ 2,000**	¥ 3,300	**$ 16,116**
Current portion of long-term debt	**2,000**	—	**16,116**
Notes and accounts payable:			
Trade notes	**7,361**	6,975	**59,315**
Trade accounts	**4,588**	1,897	**36,970**
Subsidiaries and an affiliated company	**1,285**	1,010	**10,355**
Other	**2,578**	1,004	**20,774**
Income taxes payable	**38**	90	**306**
Accrued expenses and other current liabilities	**921**	718	**7,421**
Total current liabilities	**20,771**	14,994	**167,373**
LONG-TERM LIABILITIES:			
Long-term debt	**7,806**	19,400	**62,901**
Liability for retirement benefits	**763**	574	**6,148**
Long-term deposits	**82**	15	**661**
Allowance for loss incurred by subsidiaries	**1,430**	4,730	**11,523**
Stock purchase warrants	**28**	28	**226**
Total long-term liabilities	**10,109**	24,747	**81,459**
COMMITMENTS			
SHAREHOLDERS' EQUITY:			
Common stock, ¥50 par value—authorized, 130,000,000 shares; issued and outstanding, 35,625,135 shares in 1997 and 33,105,600 shares in 1996	**11,893**	8,096	**95,834**
Additional paid-in capital	**11,591**	7,794	**93,400**
Legal reserve	**527**	453	**4,247**
Retained earnings	**18,961**	13,770	**152,788**
Total shareholders' equity	**42,972**	30,113	**346,269**
TOTAL	**¥73,852**	¥69,854	**$595,101**

NON-CONSOLIDATED STATEMENTS OF OPERATIONS

Konami Co., Ltd. Years Ended March 31, 1997, 1996 and 1995

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	1997	1996	1995	**1997**
NET SALES	**¥55,235**	¥43,110	¥ 27,730	**$445,084**
COST AND EXPENSES:				
Cost of sales	**36,631**	28,453	18,372	**295,173**
Selling, general and administrative expenses	**12,118**	10,579	11,852	**97,647**
Total cost and expenses	**48,749**	39,032	30,224	**392,820**
Operating income (loss)	**6,486**	4,078	(2,494)	**52,264**
OTHER INCOME (EXPENSES):				
Interest and dividend income	**90**	105	353	**725**
Interest expense	**(297)**	(576)	(754)	**(2,393)**
Foreign exchange gain (loss)—net	**893**	311	(372)	**7,196**
Devaluation of marketable and investment securities	**(1,012)**	(135)	(498)	**(8,154)**
Other—net	**(118)**	(555)	(11,945)	**(951)**
Other expenses—net	**(444)**	(850)	(13,216)	**(3,577)**
INCOME (LOSS) BEFORE INCOME TAXES	**6,042**	3,228	(15,710)	**48,687**
INCOME TAXES	**38**	71	245	**307**
NET INCOME (LOSS)	**¥ 6,004**	¥ 3,157	¥(15,955)	**$ 48,380**

	Yen			U.S. Dollars
PER SHARE OF COMMON STOCK:				
Net Income (loss)	**¥172.89**	¥95.35	¥(481.95)	**$1.39**
Fully diluted net income	**163.04**	92.22	—	**1.31**
Cash dividends applicable to the year	**30.00**	17.00	17.00	**0.24**

NON-CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Konami Co., Ltd. Years Ended March 31, 1997, 1996 and 1995

	Number of Shares of Common Stock Issued and Outstanding	Millions of Yen			
		Common Stock	Additional Paid-in Capital	Legal Reserve	Retained Earnings
BALANCE, APRIL 1, 1994	33,105,600	¥ 8,096	¥ 7,794	¥340	¥27,811
Net loss		—	—	—	(15,955)
Cash dividends, ¥17 per share		—	—	—	(563)
Transfer to legal reserve		—	—	57	(57)
Bonuses to corporate auditors		—	—	—	(4)
BALANCE, MARCH 31, 1995	33,105,600	8,096	7,794	397	11,232
Net income		—	—	—	3,157
Cash dividends, ¥17 per share		—	—	—	(563)
Transfer to legal reserve		—	—	56	(56)
BALANCE, MARCH 31, 1996	33,105,600	8,096	7,794	453	13,770
Net income		—	—	—	**6,004**
Cash dividends, ¥19.5 per share		—	—	—	**(668)**
Transfer to legal reserve		—	—	**74**	**(74)**
Bonuses to directors		—	—	—	**(71)**
Conversion of convertible bonds	**2,519,535**	**3,797**	**3,797**	—	—
BALANCE, MARCH 31, 1997	**35,625,135**	**¥11,893**	**¥11,591**	**¥527**	**¥18,961**

	Thousands of U.S. Dollars (Note 1)			
	Common Stock	Additional Paid-in Capital	Legal Reserve	Retained Earnings
BALANCE, MARCH 31, 1996	$65,238	$62,804	$3,651	$110,959
Net income	—	—	—	**48,380**
Cash dividends, $0.16 per share	—	—	—	**(5,383)**
Transfer to legal reserve	—	—	**596**	**(596)**
Bonuses to directors	—	—	—	**(572)**
Conversion of convertible bonds	**30,596**	**30,596**	—	—
BALANCE, MARCH 31, 1997	**$95,834**	**$93,400**	**$4,247**	**$152,788**

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

Konami Co., Ltd. Years Ended March 31, 1997, 1996 and 1995

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	1997	1996	1995	**1997**
OPERATING ACTIVITIES:				
Net income (loss)	**¥ 6,004**	¥ 3,157	¥(15,955)	**$ 48,380**
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	**1,740**	1,747	1,743	**14,021**
Provision for doubtful receivables from a subsidiary	**—**	—	7,200	**—**
Provision for loss incurred by subsidiaries	**—**	1,430	3,300	**—**
Net loss (gain) on sales of marketable and investment securities	**(13)**	48	(287)	**(105)**
Devaluation of marketable and investment securities	**1,012**	135	498	**8,155**
Exchange loss (gain)	**(114)**	(2)	28	**(918)**
Loss on early redemption of bonds	**10**	261	—	**81**
Loss on non-refundable lease deposit	**—**	424	—	**—**
Loss on liquidation of a subsidiary	**450**	15	—	**3,626**
Net loss (gain) on disposal or sales of property and equipment	**3**	(1,943)	45	**24**
Other—net	**385**	151	(59)	**3,102**
Changes in assets and liabilities:				
Decrease (increase) in notes and accounts receivable	**(5,425)**	(8,328)	2,817	**(43,715)**
Decrease (increase) in inventories	**(3,289)**	831	1,543	**(26,503)**
Decrease (increase) in prepaid expenses and other current assets	**(445)**	302	(306)	**(3,586)**
Increase in advance payment to subsidiaries	**(1,439)**	(77)	—	**(11,595)**
Increase (decrease) in notes and accounts payable	**4,926**	4,581	(2,046)	**39,694**
Increase (decrease) in income taxes payable	**(52)**	65	(318)	**(419)**
Decrease in accrued expenses and other current liabilities	**(141)**	(177)	(73)	**(1,136)**
Net cash provided by (used in) operating activities	**3,612**	2,620	(1,870)	**29,106**
INVESTING ACTIVITIES:				
Increase in marketable securities	**(213)**	—	—	**(1,716)**
Capital expenditures	**(2,486)**	(962)	(8,099)	**(20,032)**
Additions to investments in subsidiaries and investment securities	**(4,507)**	(2,656)	(3,679)	**(36,318)**
Increase in long-term loan to a subsidiary	**(963)**	(3,612)	—	**(7,760)**
Increase in short-term loans to subsidiaries	**(1,320)**	—	(2,515)	**(10,637)**
Increase in other assets	**(445)**	(64)	(213)	**(3,586)**
Increase in lease deposits	**(788)**	(1,922)	(1,139)	**(6,350)**
Proceeds from sales of property and equipment	**100**	4,842	247	**806**
Proceeds from sales of investments in subsidiaries and investment securities	**190**	—	2,161	**1,531**
Collections of loans to subsidiaries	**2,881**	289	3,083	**23,215**
Other—net	**184**	54	72	**1,483**
Net cash used in investing activities	**(7,367)**	(4,031)	(10,082)	**(59,364)**
FINANCING ACTIVITIES:				
Increase (decrease) in short-term bank loans	**(1,300)**	3,300	—	**(10,475)**
Proceeds from issuance of bonds	**—**	15,400	—	**—**
Proceeds from issuance of stock purchase warrants	**—**	28	—	**—**
Repayment of long-term debt	**(2,010)**	(9,501)	—	**(16,197)**
Cash dividends paid	**(668)**	(560)	(563)	**(5,383)**
Net cash provided by (used in) financing activities	**(3,978)**	8,667	(563)	**(32,055)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(7,733)**	7,256	(12,515)	**(62,313)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**12,980**	5,724	18,239	**104,593**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥ 5,247**	¥12,980	¥ 5,724	**$ 42,280**
ADDITIONAL CASH FLOW INFORMATION:				
Interest paid	**¥ 311**	¥754	¥687	**$ 2,506**
Income taxes paid	**96**	20	581	**774**
NON-CASH FINANCING ACTIVITIES:				
Convertible bonds converted into common stock	**7,594**	—	—	**61,192**

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Konami Co., Ltd.:

We have examined the consolidated balance sheets of Konami Co., Ltd. and subsidiaries as of March 31, 1997 and 1996, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 1997. Our examinations were made in accordance with auditing standards generally accepted in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Konami Co., Ltd. and subsidiaries as of March 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1997, in conformity with accounting principles generally accepted in Japan consistently applied during the period except for the change, with which we concur, in the accounting for the development cost of hardware products for the year ended March 31, 1997, and in the accounting for the development cost of software products for the year ended March 31, 1996, as discussed in Note 3.

Our examinations also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

Tokyo, Japan
June 27, 1997

Major Subsidiaries and Affiliates

Konami Finance Co., Ltd.
Paid-in Capital: ¥50 million
3-1, Toranomon 4-chome, Minato-ku, Tokyo 105, Japan
Tel: (03) 3432-5678 Fax: (03) 3432-5679

Konami Computer Entertainment Tokyo Co., Ltd.
Paid-in Capital: ¥453.1 million
3-25, Kanda Jimbocho, Chiyoda-ku, Tokyo 101, Japan
Tel: (03) 3264-3124 Fax: (03) 3264-5256

Konami Computer Entertainment Osaka Co., Ltd.
Paid-in Capital: ¥448.05 million
15-10, Nishi-Tenman 4-chome, Kita-ku, Osaka 530, Japan
Tel: (06) 364-0600 Fax: (06) 364-1600

Konami Computer Entertainment Japan Co., Ltd.
Paid-in Capital: ¥300 million
20-3, Ebisu 4-chome, Shibuya-ku, Tokyo 150, Japan
Tel: (03) 5421-3457 Fax: (03) 5421-3458

Konami Computer Entertainment Roppongi Co., Ltd.
Paid-in Capital: ¥300 million
4-30, Roppongi 1-chome, Minato-ku, Tokyo 106, Japan
Tel: (03) 3586-4567 Fax: (03) 3589-4568

Konami Computer Entertainment Nagoya Co., Ltd.
Paid-in Capital: ¥300 million
13-3, Higashisakura 1-chome, Higashi-ku, Nagoya-shi, Aichi 461, Japan
Tel: (052) 952-7788 Fax: (052) 952-7789

Konami Computer Entertainment Sapporo Co., Ltd.
Paid-in Capital: ¥300 million
3-1, Nishi 4-chome, Kita-Nanajou, Kita-ku, Sapporo-shi, Hokkaido 060, Japan
Tel: (011) 737-5678 Fax: (011) 737-5679

Konami Computer Games Aoyama Co., Ltd.
Paid-in Capital: ¥300 million
1-1, Minami-Aoyama 1-chome, Minato-ku, Tokyo 107, Japan
Tel: (03) 3404-2345 Fax: (03) 3404-2346

Konami Computer Entertainment Shinjuku Co., Ltd.
Paid-in Capital: ¥300 million
1-1, Nishi-Shinjuku 2-chome, Shinjuku-ku, Tokyo 160, Japan
Tel: (03) 3379-4567 Fax: (03) 3379-4568

Konami Computer Entertainment Yokohama Co., Ltd.
Paid-in Capital: ¥300 million
2-1, Minatomirai 2-chome, Nishi-ku, Yokohama-shi, Kanagawa 220-81, Japan
Tel: (045) 224-3343 Fax: (045) 224-3344

Konami Computer Entertainment Kobe Co., Ltd.
Paid-in Capital: ¥300 million
3-2, Minatojimanakamachi 7-chome, Chuo-ku, Kobe-shi, Hyogo 650, Japan
Tel: (078) 303-2500 Fax: (078) 303-2501

Konami Music Entertainment Co., Ltd.
Paid-in Capital: ¥30 million
20-3, Ebisu 4-chome, Shibuya-ku, Tokyo 150, Japan
Tel: (03) 5421-4123 Fax: (03) 5421-4124

Konami Parlor Entertainment Co., Ltd.
Paid-in Capital: ¥240 million
14-10, Roppongi 3-chome, Minato-ku, Tokyo 106, Japan
Tel: (03) 3423-7717 Fax: (03) 3423-7718

Konami Service Co., Ltd.
Paid-in Capital: ¥100 million
2771-2, Shimotsuruma, Yamato-shi, Kanagawa 242, Japan
Tel: (0462) 77-2567 Fax: (0462) 77-2568

Konami Kosan Co., Ltd.
Paid-in Capital: ¥480 million
3-25, Kanda Jimbocho, Chiyoda-ku, Tokyo 101, Japan
Tel: (03) 3264-4323 Fax: (03) 3264-4689

Roppongi Monitoring Center Co., Ltd.
Paid-in Capital: ¥80 million
4-30, Roppongi 1-chome, Minato-ku, Tokyo 106, Japan
Tel: (03) 3586-4334 Fax: (03) 3586-4335

Konami Computer Entertainment School Co., Ltd.
Paid-in Capital: ¥45 million
3-1, Toranomon 4-chome, Minato-ku, Tokyo 105, Japan
Tel: (03) 3432-5408 Fax: (03) 3432-5609

KY Leisure Co., Ltd.
Paid-in Capital: ¥50 million
2-17, Oyamamachi, Kanazawa-shi, Ishikawa 920, Japan
Tel: (0762) 35-2679

KCC Co., Ltd.
Paid-in Capital: ¥30 million
14-10, Roppongi 3-chome, Minato-ku, Tokyo 106, Japan
Tel: (03) 3796-5667 Fax: (03) 3796-5669

Konami Corporation of America Inc.
Paid-in Capital: US$17 million
900 Deerfield Parkway, Buffalo Grove, Illinois, 60089-4510, U.S.A.
Tel: (847) 215-5100 Fax: (847) 215-5122

Konami of America Inc.
Paid-in Capital: US$10 million
900 Deerfield Parkway, Buffalo Grove, Illinois, 60089-4510, U.S.A.
Tel: (847) 215-5100 Fax: (847) 215-5122

Konami Computer Entertainment Chicago Inc.
Paid-in Capital: US$5.5 million
900 Deerfield Parkway, Buffalo Grove, Illinois, 60089-4510, U.S.A.
Tel: (847) 215-5100 Fax: (847) 215-5122

Konami Gaming Inc.
Paid-in Capital: US$0.1 million
First Interstate Tower Building 3800 Howard Hughes Parkway, Las Vegas, Nevada, U.S.A.
Tel: (702) 735-4440 Fax: (702) 735-4447

Konami (Deutschland) GmbH
Paid-in Capital: DM3 million
Frankfurt Head Office
Berner Str.109, 60437 Frankfurt am Main 56, Germany
Tel: (069) 9508120 Fax: (069) 95081277
Branches: Amsterdam, Paris, Madrid

Konami (UK) Ltd.
Paid-in Capital: £4 million
Konami House, 54A Cowley Mill Road, Uxbridge, Middlesex, UB8 2QE U.K.
Tel: 01895-853000 Fax: 01895-853003

Konami Asia (Singapore) Pte. Ltd.
Paid-in Capital: S$1.5 million
13th Fl., 200 Cantonment Road, Singapore 0208
Tel: 324-3047 Fax: 324-3049

Konami (Singapore) Pte. Ltd.
Paid-in Capital: S$0.5 million
13th Fl., 200 Cantonment Road, Singapore 0208
Tel: 324-3047 Fax: 324-3049

Konami (Hong Kong) Ltd.
Paid-in Capital: HK$1.5 million
Suite 2007, Tower 1, The Gateway, 25 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong
Tel: 852-23170077 Fax: 852-29562300

Konami (Korea) Co., Ltd.
Paid-in Capital: W400 million
10th Fl., Korea Press Center Bldg., 25, 1-ka, Taepyung-ro, Chung-ku, Seoul 100-745, Republic of Korea
Tel: (02) 732-2883 Fax: (02) 732-2886

Investor Information

(As of March 31, 1997)

Common Stock

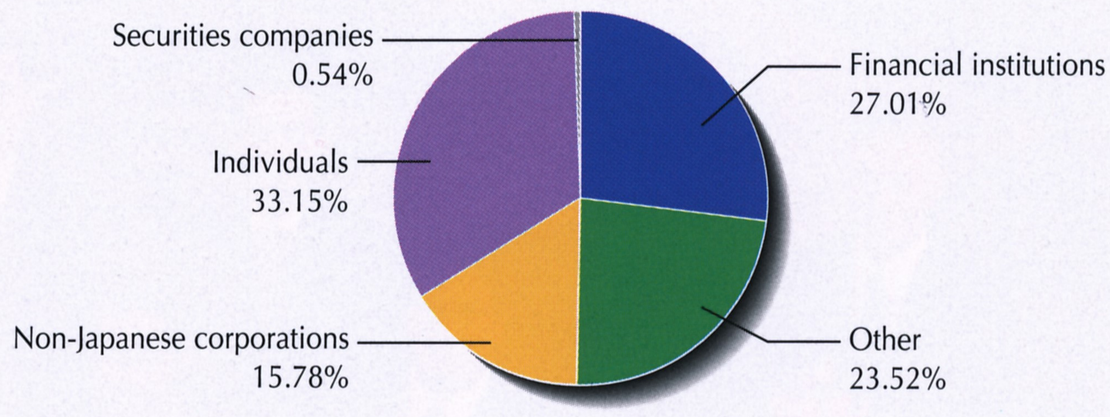
Authorized: 130,000,000 shares

Outstanding: 35,625,135 shares

Shareholders: 15,127

Stock listings: Tokyo Stock Exchange (First Section),
Osaka Securities Exchange (First Section)

Composition of Shareholders



Principal Shareholders

	(% of total)
Kagemasa Kozuki	12.66%
Kozuki Foundation for Higher Education	12.45
Three K Capital, Ltd.*	8.33
The Sakura Bank, Ltd.	4.78
The Asahi Bank, Ltd.	4.64
The Sumitomo Trust & Banking Co., Ltd.	2.78
The Daiwa Bank, Ltd.	2.53
The Toyo Trust & Banking Co., Ltd.	2.38
State Street Bank & Trust Company, Ltd.	2.17
The Sumitomo Bank, Ltd.	2.17

*Three K Capital, Ltd., was formerly called Three K, Ltd.
Of the above Principal Shareholders, shares held in trust are as follows:
The Sumitomo Trust & Banking Co., Ltd.: 376,000
The Toyo Trust & Banking Co., Ltd.: 388,000

Main Banks

The Sakura Bank, Ltd.
The Sumitomo Bank, Ltd.
The Asahi Bank, Ltd.
The Toyo Trust & Banking Co., Ltd.
The Industrial Bank of Japan

Board of Directors and Corporate Auditors

(As of June 27, 1997)



Yukio Goto, Kuniaki Kinoshita, Makoto Yano, Mamoru Ota, Shigeo Kodaira, Tomokazu Godai, Yoshinobu Tasaki
Fumiaki Tanaka, Kazumi Kitaue, Akihiko Nagata, Toshiro Tateno, Shuji Kido
Kagehiko Kozuki, Noriaki Yamaguchi
Kagemasa Kozuki

■ ***Chairman of the Board and Chief Executive Officer***
Kagemasa Kozuki

■ ***Vice Chairman***
Kagehiko Kozuki

■ ***Managing Director***
Noriaki Yamaguchi

■ ***Directors***
Akihiko Nagata
Kazumi Kitaue
Toshiro Tateno
Fumiaki Tanaka
Mamoru Ota
Makoto Yano
Shigeo Kodaira
Shuji Kido
Kuniaki Kinoshita
Tomokazu Godai
Yukio Goto
Yoshinobu Tasaki

■ ***Corporate Auditors***
Sokichi Toyokai
Shosuke Kawasaki
Shigeo Ishii
Mutsuko Yoshioka

CORPORATE DATA

(As of March 31, 1997)

Founded: March 21, 1969

Incorporated: March 19, 1973

Paid-in capital: ¥11,892,500,000

Representative: Kagemasa Kozuki, Chairman of the Board and Chief Executive Officer

Employees: 1,499 (including subsidiaries)

Average age: 28.8 years

Principal businesses:

Consumer-Use Software (development, manufacture and sale of consumer-use and commercial-use software)

Amusement Machines (development, manufacture and sale of amusement machines)

Gaming Machines (development, manufacture and sale of gaming machines)

Pachinko Systems (development, manufacture and sale of liquid crystal displays for pachinko machine manufacturers)

Creative Products (production and sale of character goods, music CDs, etc.)

Amusement Operations (operation of amusement facilities)

Head Office
3-1, Toranomon 4-chome, Minato-ku,
Tokyo 105, Japan
Tel: (03) 3432-5678 Fax: (03) 3432-5679

Gaming Machines Division's Head Office
1-1, Higashihara 5-chome, Zama-shi,
Kanagawa 228, Japan
Tel: (0462) 59-1777 Fax: (0462) 59-1780

Amusement Machines Division's Head Office
6-3, Takatsukadai, Nishi-ku, Kobe-shi,
Hyogo 651-22, Japan
Tel: (078) 993-2500 Fax: (078) 993-2520

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36F China World Tower, No. 1,
Jian Guo Men Wai Avenue, P.R.C.
Tel: (010) 6505-1235 Fax: (010) 6505-1236

Konami Co., Ltd., Shanghai Representative Office
Room F1, 19F, Jiushi Renaissance Mansion
918 Huai Hai M. Road, Shanghai, P.R.C.
Tel: (21) 6415-4478 Fax: (21) 6415-4479

Konami Co., Ltd., Tianjin Representative Office
Room 2512, 25F, Tianjin International Building
75 Nanjing Road, Tianjin, P.R.C.
Tel: (022) 2311-4486 Fax: (022) 2311-4489

Konami Co., Ltd., Dalian Representative Office
21F, Senmao Building, 147 Zhongshan Road,
Xigang District, Dalian 116011, P.R.C.
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